The CEO Agenda

‘Three years ago, the word sustainability meant little or nothing to me.’

Ray C. Anderson
Chairman, Interface Inc.; Co-Chair, US President’s Council on Sustainable Development

Can business leaders satisfy the triple bottom line?
"It is astonishing that I am writing this today," Ray Anderson, Chairman of carpet-makers Interface and Co-Chair of the US President’s Council on Sustainable Development, says at the beginning of his foreword. “Three years ago, the word sustainability meant little or nothing to me. For the first twenty-one years of Interface’s existence, I never gave one thought to what we did for the Earth, except to be sure we obeyed all laws and regulations.” Then his eyes were opened. Read his report to find out how and what Interface is doing to help build a civilisation that flies, rather than crashes and burns.

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Design
Rupert Bassett
+44 (0)181 960 9550
Rotis Sans Serif

Print
JAMM Print and Production
+44 (0)171 231 9440
Paperback SylvanPrint 135gsm
100% post-consumer waste
NAPM HMSO 100
Forewords

From Factory Fence to Boardroom

Who has been responsible for handling the triple bottom line agenda?

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**Astra Sweden**

“**We are convinced that effective management of environmental work benefits the environment as well as our business activities,” says Astra President and CEO Håkan Mogren. But what about social and ethical issues? Mogren does not mention that Astra’s US operations had been rocked by the exposure of sexual harassment and fraud in the company. A Business Week exposé showed the problems involved top people at Astra USA. Is it significant that neither Mogren nor Environmental Director Lars-Göran Berquist mention sustainable development? Triple bottom line accounting and reporting principles would leave Astra no choice but to disclose such problems — and talk about planned responses.”

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**Introduction**

This brief report highlights the findings of an international survey of chief executive officer (CEO) and other board-level perspectives on ‘the triple bottom’ line of sustainable development.

In the simplest terms, the triple bottom line focuses companies not simply on the economic value they add, but also on the environmental and social value added or destroyed. On the evidence presented here, only 11% of CEOs currently show even an embryonic understanding of the emerging agenda in this area — although this figure is a dramatic increase on the position 3-4 years ago, when the figure would certainly have been zero.

**The CEO Agenda** builds on a series of earlier reports *SustainAbility* has produced with the UNEP and a wide range of corporate partners. In a series of survey reports in 1994, 1996 and 1997 we have developed and applied a set of benchmarking tools to the latest corporate environmental reports. **The CEO Agenda** is the first of a new series of *Engaging Stakeholder* reports focusing on specific aspects of reporting: the role of boards, social reporting and the motives of non-reporting companies. All three reports should be published during 1998.

**A litmus test**

The survey reported in *The CEO Agenda* focuses on 100 companies from 16 sectors in a total of 18 countries. The companies covered are the same as in our *1997 Benchmark Survey* (see page19). Note that 1996 company environmental reports are usually printed in 1997.

The focus is on the CEO or other top management forewords in these corporate environmental reports (CERs). A number of the CERs had two or more forewords, but we have concentrated on the foreword signed by the most senior executive. This is perhaps not totally fair, but we are confident that the results of the survey do give a useful indication of the state of CEO and board-level thinking. Think of the survey as a ‘litmus test’. We intend to further develop our work on the role of business leaders, boards and corporate governance systems.

As far as methodology is concerned, we carried out a content analysis of the CEO forewords of the 100 company environmental reports — and then used the ten lenses of the ‘transitions’ first introduced in *Engaging Stakeholders* in 1996 (see back cover) for the analysis. For the purpose of the present report, we have changed the order of the transitions, so that we start with corporate governance and run through to the triple bottom line.

In the margins of this short report, you will find a series of case studies. The only case study outside the 100 companies selected for our *1997 Benchmark Survey* is *Interface* (page 2), which came in late — but caught our interest. These cases are clearly not meant to be comprehensive, nor should they be considered as endorsements of particular companies or reports. Instead, they aim to provoke the reader into thinking about different aspects of the emerging triple bottom line agenda.

**Objectives**

The objective of this report is to begin the process of assessing the extent of board-level understanding of the sustainable development agenda. More specifically, we have been looking for evidence of whether the triple bottom line is even acknowledged, let alone used as a framework within which to set targets and measure progress.

A linked objective is to raise awareness in boardrooms around the world. This is crucially important given that business is now playing a much more powerful role globally and that business leaders will be central in defining and delivering sustainable development. In identifying corporate leaders and laggards, we intend to signal successful — and less successful — approaches to this crucial set of issues.

**The CEO agenda**

So why are CEOs and boards of directors becoming involved in the area of sustainable development? Surely the ‘CEO agenda’ is focused on more important things, like top management organisation, corporate portfolio strategy, corporate finance, mergers and acquisitions, shareholder relations, corporate governance, government relations and risk management?
The answer, of course, is that triple bottom line concerns and priorities are now cutting across all of these areas of top management interest and responsibility.

Yet it is clear from this first survey of the board-level perspectives in CERs that most of the CEOs and other leaders do not even properly address the issue of environmental value added, let alone the wider social dimensions. There is an urgent need for further evolution in accounting methods to embrace all three dimensions of the triple bottom line.

Interestingly, even the business leaders who formally reference this challenge generally do not seem to grasp its true nature and scale. Indeed, the purpose of The CEO Agenda is to begin the process of helping them understand what the future holds — and what the CEO and board roles and responsibilities are likely to be.

### Key findings

The overall impression left by a close reading of the CEO and senior management forewords is that most of these business leaders are still being led — rather than leading the way. But the following findings show that top management involvement in environmental reporting has exploded in recent years:

1. One or more of the CEO, Chairman or President signs a full 74% of the 100 CER forewords in the survey. Clearly, the vast majority of companies now want to signal top management — and increasingly — board involvement in directing the company’s responses.

2. Another 15% of the CERs: are signed by other directors, such as Vice Presidents or Vice Chairmen only; bear the signature of the Vice President for Environment or environmental manager only; or are signed off in some other way.

3. Disappointingly, the final 11% of CERs surveyed had no signed foreword. These came from BC Hydro, Danish Steel Works, Eastern Group, Fiat, Inter-Continental Hotels, Kirin Brewery, Philips, PVDSA, Saga Petroleum, Tepco and Toyota.

4. The eight outstanding forewords were by ABB, The Body Shop, Dow Canada, HLEH, Monsanto, Ontario Hydro, SAS and Xerox.

5. The signed forewords which impressed us least were by Exxon, IBM, Seiyō and WMMX. Advice on how to do better next time can be found on page 17.

6. Only 11% of the CERs displayed any understanding of the triple bottom line, whatever they called it.

It is also striking that even companies that produce good environmental reports typically fail to mention highly controversial and current social/ethical issues which reflect on their integrity — or on the quality of management control. Sweden’s Astra (Case 02) is one example.

### Headline conclusions

1. Governments, business organisations, companies and communities around the world are continuing to signal growing interest in sustainable development.

2. In doing so, companies will increasingly be held accountable against the triple bottom line — which measures economic, social and environmental value added (or destroyed).

3. As a result, company boards will be in the spotlight as never before.

4. Yet this latest UNEP/SustainAbility survey suggests that most boards are ill-prepared for the challenge.

5. Our conclusion: business leaders will need to put their boards through a form of sustainability audit to assess the strengths and weaknesses of executive and non-executive directors — and the portfolio for which they are responsible.

Clearly, this conclusion links directly to the emerging interest in assessing the value added by corporate CEOs, boards and board members.46 But, strikingly, none of the business leaders in the survey mentioned the role of their boards in this area or discussed the corporate governance issues raised. This is a worrying finding and an area to which we intend to return in future work.

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**Case 03**

Aiming its reporting at customers and the financial market, SAS talks of “developing profitably by delivering, in free competition, the benefits from air transportation that society demands — with optimal resource utilisation and minimal environmental impact.” In his foreword, Jan Stenberg — the airline’s President and CEO — sees real competitive advantages in getting the company’s response right. As he reports: “In the Norwegian state’s current procurement of air transportation services — a deal worth several hundred million Norwegian kroner — environmental information was an essential prerequisite for submitting a tender.”

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Some commentators warn that as the electricity sector shifts from monopolies to markets, "short-term competitive advantage will always trump long-term sustainability in the business decision-making process," notes Ontario Hydro CEO Dr Allan Kupcis. But, he says, Ontario Hydro will prove them wrong. "We think it is self-evident that sustainability and competitiveness in the utility industry are now inextricably linked." But the scaling down of the company's sustainability activities once Chairman Maurice Strong left has raised some real question marks over just how far Ontario Hydro will now push this agenda.

The centre of gravity of the sustainable business debate has shifted from public relations to competitive advantage and corporate governance — and, in the process, from factory fence to boardroom.

Traditionally, corporate governance has focused on the ways in which organisations, particularly limited companies, are managed, and on the nature of the accountability of managers to owners.

The 1990s, however, have seen a steady expansion of the agenda, from 'exclusive' forms of corporate governance (largely focused on shareholders and financial markets) to more 'inclusive' forms, based on extensive stakeholder dialogue.

At the same time, the corporate governance debate has gained new energy, with inquiries in the UK alone resulting in the Cadbury, Greenbury, Hampel and 'Tomorrow's Company' reports.

The financial markets and many traditionally-minded executives will probably continue to resist the expansion of the corporate governance agenda to cover wider stakeholder accountabilities, but this expansion now seems inevitable.

Meanwhile, individual CEOs or top executives often play a critical role in the awakening of their own companies to emerging triple bottom line responsibilities and imperatives. But what happens when they move on? At the moment, the answer is that things can sometimes begin to unravel.

The recent experience of the sustainable development activities in Canada’s Ontario Hydro after the departure of Chairman Maurice Strong (Case 04) shows just how vulnerable such programmes can be to top management changes. There is a growing need to institutionalise and ‘mainstream’ the relevant priorities, systems and methodologies in such companies.

The role of boards in this process will be fundamentally important. Longer term, however, markets will increasingly require sound triple bottom line performance. As a result, the role of CEOs and boards will switch from steering debates about whether to act at all to increasingly intense involvement in efforts to develop sustainable competitive advantage.

One of the implications of these issues becoming more important to corporate governance is that we will increasingly see chief financial officers (CFOs) becoming involved in this area. As Price Waterhouse put it in a recent book on the role of the ‘super-CFO’: "Presiding over processes that cut across the business, these CFOs set strategy, lead crucial change initiatives and act as real partners in decision-making with their CEOs."

So how aware are CEOs of this impending shift from exclusive to more inclusive forms of corporate governance? On the evidence presented in the 100 CER forewords, they are totally blind to it. Precisely 0.00% mention corporate governance. And exactly 0.00% also discuss the role of the board in guiding their company's sustainable development programmes. This must change.
The days when the environmental agenda was left to public relations professionals are almost past. As the focus shifts to competitive advantage, value chains and even ‘business ecosystems’ (see page 16), so the agenda will increasingly be of real strategic importance for companies.

So how many CEOs are aware of this shift? The answer, on the evidence of these top management forewords, is very few. But every time a CEO or company slips up, like Jürgen Schrempp of Daimler-Benz (Case 05), the world learns.

To date, particularly with the emergence of new environmental management standards such as EMAS and ISO 14001, the focus has been on management systems. Increasingly, however, the emphasis will shift to business strategy. In the process, there will be growing interest in life-cycle management and in the reconfiguration of markets to support dematerialisation and sustainable corporate behaviour.

Many companies still focus upon the benefits to themselves and the environment of eco-efficiency. The comments of Rhône-Poulenc’s Chairman and Vice Chairman are typical: “[The challenge] implies gearing up all our research facilities and technological skills to create products that are not only more cost effective but also safer for people and the environment throughout all stages of their life.”

Several Scandinavian CEOs focus on life cycle assessment (LCA) in the strictest environmental sense. ABB is “aggressively pursuing lifecycle assessment to measure and reduce the impact of our products from supply and design, through manufacturing and lifetime operation, to recycling and disposal.”

Meanwhile, in the forestry industry, Norske Skog sees the opportunity to take cradle-to-grave analysis one step further. “We are not just talking about a cradle-to-grave life cycle,” says Jan Reinås, the company’s President and CEO, “but a life cycle from cradle-to-crade, in which the raw materials and most of the energy sources we use renew themselves and can be used over again. This is our industry’s great strength — and great challenge”.

Volvo sees LCA as a vital ingredient in building the company’s standing in the eyes of stakeholders. As Sören Gyll, the then Volvo President and CEO, put it in the company’s 1996 report: “Credible environmental programmes must take account of the total environmental impact of a product over its life cycle, including every phase from raw materials extraction and production to everyday use and waste management. This is essential to the establishment of correct procedures.”

But how critical do CEOs perceive all of this to be? Well, Jan Stenberg, President and CEO of SAS, stands out as a leader who sees LCA as so important that he flags up the page in his company’s environmental report in which one of Sweden’s LCA experts sums up some of the most important recent developments in this field.

In the end, life-cycle thinking implies that companies have a responsibility for their products up and down the supply chain. BASF, for example, reflects the German preoccupation with ‘producer responsibility’ for packaging. Jürgen Strube, the company’s Chairman, reports that “BASF experts have developed a transport system for customers which not only ensures the correct treatment for the product but also enables containers to be reused safely.”

Several large companies acknowledge that they have considerable power when it comes to their suppliers. As Bengt Pettersson, MoDo’s President and CEO, puts it: “MoDo will make environmental demands when purchasing transport services, just as our customers make environmental demands on the products we manufacture”.

What is much harder to determine is how these commitments are being put into practice. How many suppliers, for example, have been challenged on their environmental — let alone their triple bottom line — performance?
The challenges facing globalising companies are becoming increasingly complex. Companies often complain that they operate in markets where the ‘playing field is uneven’, yet the evidence suggests that they are often comfortable to apply very different standards in different parts of the world. This approach will become less sustainable in what Shell’s Cor Herkströter dubs a ‘CNN world’ (Case 10, page 12).

Shell is not the only company to have been challenged in terms of its ability — or willingness — to apply consistent triple bottom line standards in different parts of the world: ABB has also been hit hard during the controversies surrounding two major dam projects, the Bakun Dam in Malaysia and the Three Gorges Dam in China (Case 06).

The evidence suggests that the impending shift will not simply be from ad-hoc to global environmental standards, but to global triple bottom line standards. So how aware are CEOs of this emerging trend?

On the basis of their words, a relatively small proportion of business leaders currently ‘get it’. The main focus is still on international environmental management standards. So, for example, a total of 24% talk about either the European Union’s EMAS standard (10%) or the International Standards Organization’s recently introduced ISO 14001 (14%).

Other standards are less visible in these forewords. The chemical industry’s Responsible Care is mentioned by 8% of the CEOs, the International Chamber of Commerce’s Business Charter for Sustainable Development by just 3%.

A number of companies, like Bayer, try to apply global operating standards through the Chemical Industries Association Responsible Care programme. “It is our mission to combine economy and ecology by applying the principles of Responsible Care,” says Dr Manfred Schneider, Chairman of the Board of Management of Bayer. “To do this we have adopted a comprehensive program of actions and issued guidelines that are binding on Bayer companies throughout the world.”

Other CEOs are also clearly engaged — sometimes even enthusiastic. For example Paul A. Allaire, Chairman and CEO of Xerox, is bullish about global standards. Summing up the challenge, he notes: “Future goals include worldwide ISO 14000 registration, the successful implementation of our Zero Injury initiatives, and further expansion of environmental features in new products.”

As growing numbers of companies travel up the environmental management system (EMS) learning curve, the threshold for new companies wanting to start the process very likely will drop. Even the best companies, however, often find it extremely difficult to lay their hands on the information they need.09

Vagn Genter, Managing Director of Brødrene Hartmann, is ahead of the field in being able to report that all the company’s Danish plants have produced environmental accounts. But, as he continues to say: “The Environmental Accounts 1996 include all of Brødrene Hartmann’s plants in Denmark, but not our foreign plants as yet.”

Where companies operate in foreign markets — and with employees drawn from foreign cultures — the problems usually become tougher to manage. John Browne, BP’s Group Chief Executive (Case 13, page 15), highlights his company’s safety problems overseas — and comments on how these problems have affected BP’s progress towards its global ‘no accidents’ goal. “We face increased violence in our operations,” he notes, “particularly in service stations, and continuing problems of road safety in the emerging economies.”

Put globalisation together with the emerging ‘CNN world’ and the environmental challenge facing CEOs and boards becomes more complex. Add in the triple bottom line and there could be two outcomes: either breakdown (for poorly run companies) or breakthrough (for well-run companies).
A forceful critic of corporate capitalism is David Korten. He sees top business people as remote from the real world. “The truly rich and powerful,” he argues, “work in beautifully appointed executive suites in tall office towers; travel to meetings by limousine and helicopter; jet between continents high above the clouds, pampered with the finest wines by an attentive crew; and live in protected estates, affluent suburbs and penthouse suites amid art, beauty and a protected environment.”

The deeper they sink into this comfortable cocoon, the more they are insulated from the economic, social and environmental realities which the less fortunate living in Bangladesh, Mexico, South Africa or the economically depressed areas of Europe and the USA experience every day. Intentionally or not, they also insulate themselves from the impacts and outcomes of their own decisions, especially the long-term impacts.

Only one CEO foreword in our survey gave any sense that the business leader concerned had broken out of the cocoon. This came from the pen of Norio Ohga of Sony (Case 7).

There are few mentions of social issues or impacts in these forewords, although there is no question that many of these companies have substantial social ‘footprints’.

More positively, a growing number of reporting companies are providing data on inputs and outputs which are almost on a level with the requirements of the mandatory US Toxic Release Inventory (TRI). More often than not, however, it is impossible to work out what these figures mean in terms of real-world impacts and outcomes.

Some companies, including Dow Chemical and Novo Nordisk, have begun to address this, but much greater effort is needed. Only if we truly understand the links between inputs and outputs — and the resulting impacts and outcomes — can we work out how to prioritise our ‘clean-up’ efforts.

The majority of the survey CEOs mention emissions of one sort or another, but only 10% talk about the broader environmental and societal impacts of their own company’s activities.

Inevitably, there are exceptions. ICI Chief Executive Charles Miller Smith introduces his company’s new ‘Environmental Burden’ approach, designed to measure potential environmental impact. As he puts it, this approach “provides a more meaningful picture of the impact of our emissions, compared with the customary practice of merely reporting the weights of substances discharged. And it identifies the most harmful wastes so that we can continue to make these a priority.”

Similarly, Jorma Vaajoki, President and CEO of Metsä-Serla, talks about konsta®, the company’s proprietary index of environmental impact. He notes that: “In the fourth of Metsä-Serla’s environmental reports, published a year ago, the environmental effects of production were examined for the first time using impact scores. In the present report, the principles behind the calculations are explained in greater detail.”

The difficulties involved in providing stakeholders with accurate information about impacts are well described by Jaakko Ihamuotila (Chairman and CEO) and Jukka Vinanen (President and COO) of Neste. “Enlightened customers know what to ask about the environmental impacts of a product during its life cycle,” they say. But, they add, “as yet, we cannot provide answers to all the questions. Further research, more information and the courage to clarify complex issues are needed. In talking about life cycles, we constantly come up against problems and uncertainties. But in searching for answers to difficult questions, we are also seeking answers to the continuation of our present business operations.”

Sony Chairman and CEO Norio Ohga says the rolling dunes and green pines which were such a delight of his childhood world are now gone. “The view from my home has been lost forever,” he reports, as development blocked views and fuelled the felling of pines and bulldozing of dunes. In Eastern Europe he has also seen darker sides of development. “I was horrified to find huge tracts of land in Europe covered with nothing but stumps.” Sony cannot crack such problems alone, but Ohga calls for the electronics industry to work with partners to create a sustainable future. He sounds serious.

Mandatory Reporting

Should the different components of triple bottom line reporting be voluntary or mandatory? In the financial area, most companies are now subject to — and comfortable with — mandatory accounting, auditing and reporting requirements. But the situation is very different in the fields of environmental, social and ethical accounting, auditing and reporting.

Throughout the Engaging Stakeholders programme, UNEP and SustainAbility have promoted voluntary environmental reporting, in the belief that it encourages experimentation by report-makers. This is still the case, but there are clear signs both among report-makers and among report-users and other stakeholders that there will be growing calls for mandatory reporting.

Although still not widespread, mandatory reporting requirements have been put into place in a number of countries. Perhaps the best known is the Toxic Release Inventory (TRI) in the United States. In Northern Europe, the Dutch, Danish, Swedish and Norwegian governments also all require reports, although they are still limited to particular industry sectors and certain categories of companies. The EMAS standard, too, will only be awarded to a site for which a site statement has been written.

In part, mandatory reporting will be driven by a concern to ensure that the ‘pain’ of reporting is more fairly spread. But the trend will also reflect the fact that market approaches to environmental management depend on the availability of information which — for the overwhelming majority of companies — is still not easily accessible.

Surprisingly, perhaps, only one CEO foreword in the entire survey of 100 companies mentioned the most notable of current mandatory reporting requirements, the US Toxic Release Inventory (TRI). This foreword was by John A. Krol, DuPont’s CEO and ‘Chief Environmental Safety Officer’.

Interestingly, but not surprisingly, not a single CEO calls for mandatory reporting. But Hugh Morgan, WMC’s Chief Executive Officer explains why reporting is important to WMC: “Within the company, our practice of reporting publicly is an important stimulus to achieving excellence in environmental management. Public accountability is not only a discipline for management and staff, it also builds a company culture in which environmental considerations achieve increased focus and higher priority.”

Both the Sun Company and Polaroid talk about their commitment to the CERES — formerly Valdez — Principles. As Sun Chairman and CEO Robert H. Campbell notes: “Our CERES commitment has helped us to stay focused on our HES [Health, Environment and Safety] priorities during a rough financial period”.

CERES has now launched a Global Reporting Initiative (GRI), in an attempt to bring more coherence to the world of environmental reporting standards. But there is a paradox here: the more ambitious such standards and guidelines become, the less likely we are to achieve consensus and total buy-in from CEOs in different world regions.

So, for example, business leaders like Texaco’s Peter Bijur (Case 08) may now be shining the spotlight on the social and ethical aspects of their companies’ operations, but there is a risk that the controversies surrounding such early moves towards triple bottom line accounting and reporting may persuade some CEOs and boards to soft-pedal on mandatory standards.
Multi-way, Active Dialogue

There is evidence of a growing ‘credibility gap’, and in some cases even of a ‘credibility crisis’, in the field of reporting. As a result, there are now clear calls from many stakeholders for more interactive forms of corporate stakeholder communication.

In a small number of cases, companies — among them Denmark’s Novo Nordisk and the UK’s BP — have developed long-running and highly effective stakeholder dialogue processes. Novo Nordisk, in particular, has extended its European process to the USA, where it has a number of sites. But these interactive processes still remain the exception rather than the rule.

So how aware are CEOs of this emerging requirement for stakeholder interaction? The answer is to a much greater degree than they would have been just a few years back. But then you might expect that, given that these business leaders run — or help to run — companies which have already decided to report to their stakeholders, not just to their shareholders.

Indeed, some see stakeholder engagement as absolutely central to their environmental programmes. The Finnish electricity generator IVO, for example, highlights consultation with stakeholders as a mark of the fundamental shift in the company’s approach to the environment. As CEO Kalevi Numminen says, IVO’s focus on stakeholder engagement “more clearly emphasises the principles of continuous improvement, interaction with interest groups and the IVO Group’s responsibility for acceptable environmental standards throughout the energy supply chain.”

In South Africa, Eskom Chairman Dr John Maree stresses the importance of governments in setting the regulatory and fiscal frameworks for sustainable development — and reports on Eskom’s active role in national stakeholder dialogue on this issue.

Although they may be extremely brief in terms of absolute word-counts, it is surprising how revealing CER forewords can be of a company’s underlying personality. Take the life sciences companies Roche, Monsanto and Novo Nordisk, for instance.

All three are faced with the same problem: they believe that through biotechnology, their products can make a major contribution to sustainable development — but they are also very aware that their stakeholders are apprehensive about the safety of their products and the wider implications of developments in the biotechnology field.

Switzerland’s Roche mentions nothing of its stakeholders’ views on this hot topic, asserting categorically that: “In the truest sense of the words, biotechnology is sustainable and environmentally compatible.”

In a slightly less bullish foreword, CEO Robert Shapiro from Monsanto (Case 09) in the USA, clearly feels that he has a role to enlighten. He refers to a Sustainable Business Opportunities Roundtable to which experts from around the world were invited — and as a result of which “we can in a small way help others to learn more about the subject”.

But, particularly given the scale of the protest against the company’s attempts to introduce its bovine somatotropin (BST) dairy hormone and genetically modified soybeans into the European market, it would be useful to hear Bob Shapiro — and others of his ilk — ruminating on the range of triple bottom line issues likely to face the genetic engineering industry as we move into the 21st century. As it is, neither the Monsanto report, nor the foreword signed by Bob Shapiro, discusses these issues at all.

Only Novo Nordisk really takes on board the complexity of the biotechnology debate. Mads Øvlesen, the Danish company’s President and CEO, notes that the company recognises “that the application of new technologies can be controversial and that it demands reasonable, open and honest behaviour from business. We must listen, learn and respond to the needs and values of our stakeholders. We believe that embracing a stakeholder-led approach will provide us with the best basis for successful business in the future.”

In his foreword to the company’s sixth CER, Monsanto Chairman notes that the company is splitting into two companies, focusing on chemicals and life sciences. “In the Life Sciences company,” he says, “sustainable development will be a primary emphasis in everything we do.” The company’s enthusiasm in this area, Shapiro reports, “is being driven by critical global needs, which in turn create tremendous business opportunities.” Unfortunately, Monsanto keeps stumbling in the European market, where there is less support for genetic engineering as a route to agricultural sustainability. Will Monsanto manage to get its words and actions in step?

11 SustainAbility/UNEP Engaging Stakeholders Volume 2, section 2.2.2, 1996.
Setting Boundaries

One of the key reasons why voluntary corporate environmental reporting has not yet transformed the credibility of reporting companies is that the process of deciding when, how and to whom to report is often controlled by the companies themselves. For such reporting to be truly credible and effective in building — or rebuilding — ‘social capital’ in what Shell has dubbed a “CNN world” (Case 10), stakeholders must be involved in negotiating the boundaries of accountability and reporting.

As we have seen, growing numbers of CEOs understand the need to communicate with their stakeholders, but how many are aware of the need to engage internal and external stakeholders in setting reporting boundaries? From the evidence of this latest UNEP survey, a very small proportion. Let’s look at some of the exceptions.

Since the Body Shop’s Values Report scored the highest mark in the 1997 UNEP/SustainAbility Benchmark Survey, it is worth asking how they handle this issue. Let’s look at how they involve franchisees: “In 1996, based on feedback from our international franchisees in our first social audit survey, a Franchisee Advisory Board was elected which liaises directly with the Main Board,” report co-founders Anita and Gordon Roddick.

They say that the process “has already started to prove its value in providing a platform for consultation. We now need to ensure that we continue on this road of mutual learning and exchange of ideas and that we deepen our commitment to collaborative decision making.”

Volkswagen also reports on its efforts to engage internal stakeholders who also have external interests; in this case the trade unions. As part of its strategy to minimise its impact on the environment, Volkswagen has signed a Factory Agreement on Environmental Protection. Interestingly, the foreword to the VW environmental report where the agreement is mentioned is jointly signed by the heads of Environment and Transportation and Environmental Protection and Works Safety.

Some companies, too, are reporting on market pressures for improved environmental performance coming from their customers (Case 03, page 5).

No company, however, has yet used its foreword to discuss ways in which it has engaged — or in which it might engage — its customers and consumers in the process of setting boundaries for triple bottom line accounting and reporting.

It would also be logical to involve local communities. But the details given in this area are surprisingly thin. A few CEOs, like Intel Chairman Gordon E. Moore, mention the part played by community advisory panels and community groups in raising concerns with the company, but they are the exceptions.

Regulators are also rarely mentioned. One exception here: Union Carbide’s William H. Joyce — who is listed simultaneously as Chairman, President and CEO — highlights the US Environmental Protection Agency (EPA) programme called Project XL, which “will allow companies such as Carbide to work with a diverse stakeholder group to develop their own environmental goals and strategies that attain results surpassing regulatory requirements, often at lower costs.”

And what about the world of non-governmental organisations (NGOs)? Many companies reference their support for NGOs or, in a smaller number of cases, the disputes they have had with NGOs. But some companies go further. Sweden’s AssiDomän, for example, reports that it is working closely with NGOs to shape its future business activities.

“Toward the end of the year,” says the company President, Lennart Ahlgren, “we were granted membership of the Forest Stewardship Council [and, in so doing, became the first forestry products company to achieve FSC registration]. We look forward to independent examination and environmental certification of our forestry getting under way.”

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Case 10

The world’s attention has been focused on Shell since the Brent Spar and Nigerian controversies. So the Shell Group will be worth watching in the longer term as it works to internalise the messages and responds to the challenge. In the first Shell International CER, Cor Herkströter, as Chairman of the company’s Committee of Managing Directors, accepts that “our work to internalise the messages and respond to the challenge. In the first Shell International CER, Cor Herkströter, as Chairman of the company’s Committee of Managing Directors, accepts that “our

Verification as Standard

Probably the main reason that companies report is that they either want to build or restore their credibility and reputations. Many companies have found that greater transparency and carefully targeted reporting can help enormously in this direction. But users of such reports face a difficult challenge: how do they decide whether or not they should believe what they are being told? And even if the facts reported are true, how can they tell that all the relevant facts are being reported?

Since the corporate environmental reporting trend took off in the early 1990s, there has been a surge in the numbers of CERs that have been verified. The proportion verified in the UNEP CER surveys, for example, has jumped from 4% in 1994 to 28% in 1997—and the trend looks set to continue.

Anyone with a strong appetite for verification statements should turn to the Body Shop’s Values Report 1997 (Case 11), which offers not just one but three. These statements cover the accuracy of The Environmental Statement, The Social Audit and the company’s Against Animal Testing stance. Most companies are extremely unlikely to go to this length, however, even where they move to full triple bottom line reporting.

Following mixed signals on the value stakeholders attach to existing verification statements, the key question for reporting companies is not so much whether to have their CER verified — report-users are making it clear that this will be an expectation — but to ensure that verification really adds value, both for the company and for stakeholders.13

So how do the survey CEOs view the verification challenge? The answer is that only 9 of the 100 forewords even mention that their management systems or their reports are verified.

Of those CEOs mentioning verification, one of the most up-front is BP’s John Browne. He flags up verification as a goal for the future, saying that “by 2000 the environment management systems at all our major sites will be verified by external auditors.”

SAS CEO Jan Stenberg sets an objective for the next year: “Our goal is, by the time of the next environmental report — that of 1997 [published in 1998] — to have attained a quality level that corresponds to international requirements and can be verified by an external auditor.”

But there are indications that some companies remain concerned about the competence of the auditors themselves. MoDo CEO Bengt Pettersson mentions specifically that this year the Swedish forestry company has again opted out of “auditing” its report, “pending the official authorisation of environmental auditors.”

Neste’s Jukka Vinanen, President and COO, and Jaakko Ihamuotila, Chairman and CEO, make a rare link between the verification process and the need to build credibility, trust and other forms of social capital. In their foreword, they are keen to emphasise their commitment to deeds as well as words.

Other pioneering companies also touch on the importance of building trust. Egil Myklebust, President and CEO of Norsk Hydro, says that his company gives “high priority to demonstrating that we are worthy of our ‘licence to operate,’” whilst the President and Chairman of Novartis acknowledge that “we depend on the ‘license to innovate’ granted to us by society on the basis of our credibility and trustworthiness.”

Sometimes, companies try other routes to credibility. Yorkshire Electricity has chosen to ask for a public endorsement from English Heritage, who have supplied a foreword for the 1995–6 Yorkshire Electricity CER. Although the organisation is well respected, English Heritage’s foreword raises an eyebrow. Clearly the relationship is a cosy one, and English Heritage even acknowledges and thanks Yorkshire Electricity as a major donor.

The next issue then is whether traditional accounting firms are up to the challenge of environmental, social and triple bottom line verification? If not, how can the gap be bridged? Through the use of specialist consultancies? Or NGOs? This is clearly a question which will be even more challenging for companies with global operations.

Case 11

“We now have two years of measurements of social performance to add to our five years of environmental auditing and reporting,” says Body Shop founders Anita and Gordon Roddick in the foreword to their Values Report 1997. An extraordinary feature of the latest report is not just one verification statement, but three — each covering different aspects of the performance reported. Is this really a model for other companies to follow? Yes, but most will probably prefer to go for a single, integrated verification statement as they move towards triple bottom line reporting.

13 Engaging Stakeholders Volume 1, page 57, 1996
Lord Cranbrook, as Chairman of Anglian Water’s Board Environment Committee, covers such issues as biodiversity and bathing water quality in his foreword. One B-word he does not mention, however, is benchmarking. Slightly strange, since the company’s report is one of the very few to include a section directly addressing the growing demand for benchmarkability. Anglian Water’s results are plotted against industry average results. A lead which more companies should follow?

The London Benchmarking Group is one of the pioneers in this area and has focused on community involvement. Benchmarking is a coming trend, and one which throws into stark relief the enormous challenge of comparing the performance even of many companies operating in the same sector — let alone companies operating across different sectors. Companies can benchmark (or compare) their own performance year-on-year, or against the benchmarks set by competitors in the same sector, or against best practice in any sector.

The external demand for benchmarkability and benchmarking is developing rapidly. Our 1996 Engaging Stakeholders research showed that, whereas most report-makers still see reports as a source of reassurance to stakeholders, and as a way of communicating best practice, the users inter-viewed flagged up very different needs: for measuring, monitoring, screening, comparing and benchmarking company performance.

Anglian Water, Shell UK, MoDo of Sweden and Norway’s Statoil and Norske Skog have been among the very small number of companies trying to ensure that at least some elements of their reported performance can be benchmarked. That said, and despite growing demands for greater benchmarkability, overall progress has been relatively slow. With most com-panies still choosing their own metrics and performance indicators, benchmarking remains more of a hope than a reality.14

So how aware are the survey CEOs of the growing demand for benchmarkability? If they — and their boards — are aware that stakeholders want environmental reports to be benchmarkable, the majority certainly don’t make very much of it in their forewords.

A few CEOs do acknowledge aspects of the challenge, however. In openly inviting stakeholders to track its performance, BASF is one of the more notable exceptions to the overall rule.

According to Dr Jürgen Strube, Chairman of the BASF Board of Executive Directors: “Progress reports on how well we are complying with these [clear environmental] objectives, and updating them, will become a permanent part of our Environmental Report in future years. This will give you the opportunity to measure us against the yardsticks we ourselves have adopted, and I very much hope you will do so.”

Legislation is now developing in some parts of the world which will help in this respect. In Holland, for example, the Executive Board of the ING Group concedes that regulation has been central to making reports more benchmarkable. It notes that: “The proposed law on environmental reporting, which will make it obligatory for certain companies to report on an annual basis, is expected to result in a greater uniformity in reporting methods. This will improve the comparability of companies, partly because it will create a better linkage to the financial annual reports.”

And some sectors of industry, recognising the trend, are trying to get ahead of it by setting up benchmarking initiatives on a voluntary basis. Bengt Pettersson, President and CEO of MoDo, comments: “In many quarters attempts are being made to establish norms that will make it easier to compare the environmental performance of different companies. MoDo is collaborating with other companies in the forest industry to bring more uniformity to the reporting of environmental facts.”

But anyone laying bets on which sectors are most likely to develop a high degree of benchmarkability soonest would be well advised to put their money on oil companies (check out the latest CERs by Shell UK and Statoil) and the water industry (see Anglian Water’s 1997 CER). Each of these companies has a long way to go even on environmental — let alone triple bottom line — benchmarkability, but their efforts provide useful guidance for competitors and for companies in other sectors.
Sustainability is increasingly on the board agenda. Indeed, we see an accelerating shift from the current focus on finding technical solutions to environmental challenges to a new emphasis on how to structure markets.

CEOs and other business leaders will play a key role in this transition. To do so, they need both to understand the agenda and to gain the support of their boards for the necessary investments of time, effort and financial resources.

Some of the reports reviewed in The CEO Agenda indicate the early stages of a shift from a corporate pre-occupation with the ‘technical fixes’ of re-engineering and downsizing to a new concern with ‘how do we build the business’ and ‘what business do we want to be in?’ The triple bottom line agenda is directly relevant to this new debate.

Business leaders need to develop strategies for building corporate success around a much deeper understanding and active management of social, human and natural capital — not just of financial capital.

In this context, the current focus of so many CER forewords on continuous improvement may well be a signal that most companies are missing this bigger picture. This is worrying, particularly given that the next phase may well be about quantum jumps, rather than about small, incremental improvements.

Equally, the fact that only 28% of the CER forewords mention sustainable development — and only 11% showed any real understanding of the triple bottom line challenge — suggests that we still have a fair way to travel.

On the basis of this latest phase in our Engaging Stakeholders programme with UNEP, SustainAbility sees five critical leadership challenges for CEOs and boards in the first decade of the 21st century.

These challenges will focus on:

1. ‘Switched-on’ Boards
2. The Power Within
3. Business Ecosystems
4. Global Governance
5. Engaged Stakeholders

Reading the latest crop of CER forewords, however, we see very little evidence to date that items 1-4 on our list are yet on the business agenda. They need to be. Let’s look at each of these in more detail.

1. ‘Switched-on’ Boards

In the current crop of CEO forewords there is almost no mention of the role of boards in dealing with the environment, with sustainable development or with the triple bottom line.

This is important. Boards are the brains of corporations. And, like all brains, they can be active or inactive, ‘wired’ or tired. As in other areas, inactive or tired, disengaged boards are dangerous. Companies and industries which want to respond successfully to society’s emerging triple bottom line priorities need ‘switched-on’ boards — alert both to the upsides and downsides of the sustainability transition.

One problem is that the challenge has been developing in a fragmented way, which means that many boards are having difficulty in picking up the sheer scale of the challenge on their internal radar screens. Yet these new accountabilities will need to be addressed in a timely, integrated way across a multitude of different countries and cultures.

The ability of business leaders and corporate boards to pick up and amplify ‘weak signals’ in their business environment will be a crucial factor determining whether or not their companies are globally competitive. Fundamental to this ability to detect and analyse weak signals will be the composition of each board — and particularly the role of non-executive directors.

“In BP,” stresses Group Chief Executive John Browne, “we measure success not just by financial results but also by the way in which we discharge our responsibilities to our employees and society generally.” He sets tough goals. “Our goals are to have no accidents; do no harm to people; and do no damage to the environment,” he says in his foreword. He also references sustainable development and climate change. More than that, BP pulled out of the Global Climate Coalition (GCC) and John Browne also broke ranks with the oil industry by making major speeches on climate change before the 1997 Kyoto Conference — and boosted BP’s investment in its solar business.

Case 13

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Volvo
Sweden

"Transportation obviously has a negative impact on the environment," noted Sören Gyll, as Volvo’s (then) President and CEO. Obviously, but most auto CERs are loath to admit the fact. The challenge is to “take account of the total environmental impact of a product over its life cycle, including every phase from raw materials extraction and production to everyday use and waste management.” Not mentioned in his foreword is the fact that Volvo is now putting major pressure on its suppliers to improve their environmental performance. How long before the company takes a triple bottom approach to its supplier challenges?


The Triple Bottom Line

2 The Power Within

A linked — and often more immediate challenge — is to mobilise the ‘power within’. A fair number of the CEO forewords address the issue of employee involvement and of culture change, with Interface and Monsanto among the more obvious examples.

It is interesting how often people inside companies say that the real barrier to change is the mind-set of top people. However, given enough time, they say, retirement or even death will remove some of these people — but are we really able to wait for such slow-paced corrections to take place? Surely not.

Instead, we must work out ways of better engaging senior management with their own younger people, many of whom see the emerging agenda more clearly.

3 Business Ecosystems

Few companies can achieve sustainability alone. Increasingly, we would expect companies to think of their own transition to sustainability in the context of a wider ‘business ecosystem’ — encompassing governments, suppliers, customers and even competitors.

We are already seeing alliances between companies like Daimler-Benz, Ford, and Ballard Power Systems — companies banking on the commercial future of hydrogen and fuel cell vehicles. In the same vein, Amoco and General Motors recently announced an alliance to develop environmentally preferable transport solutions.

The study of business ecosystems has much to learn from the growing understanding of how value migrates between companies and industries over time. As industries or companies develop, they absorb value from others whose business designs are outmoded. Consider the PVC industry. By 2020, potential growth could take the world PVC industry to sales as high as $61 billion or as low as $23 billion — with the $38 billion difference largely driven by whether or not the industry succeeds in addressing the environmental agenda.

One of the most significant challenges society now faces is to catalyse the major technological and market transitions needed to help drive massive ‘value migration’ toward sustainable business ecosystems in the global economy. CEOs who are serious about sustainability should begin thinking about (and communicating) how their company is related to different value chains and business ecosystems — and how a more sustainable version might evolve.

4 Global Governance

None of the CEO forewords surveyed mentioned the broader corporate governance agenda. This is almost certainly due to the fact that boards do not yet see a connection. Yet we would expect to see this dimension discussed, particularly since the sustainability transition will require a shift from ‘exclusive’ to ‘inclusive’ forms of corporate governance.

The range of economic, social and environmental requirements implied by the triple bottom line are not recognised and addressed in European and North American corporate governance systems and rules, let alone elsewhere in the world. And now business leaders also face the parallel challenge of having to play their part in establishing global governance systems. If sustainable development is to be achievable, let alone achieved, this twin challenge must be addressed.

5 Engaged Stakeholders

In the simplest terms, stakeholders want to know whether a business or a company or an industry is adding economic value, environmental value and social value?

Not surprisingly, current CEO forewords almost exclusively address the environmental agenda. After all, these are environmental reports. But many of these companies have also signed up for sustainable development — and this means that they will increasingly be required to account for their performance against a range of triple bottom line indicators in their reporting. This will require much richer information on progress against critical economic, environmental and social indicators.
The role of CEOs, chief financial officers (CFOs) and corporate boards in defining and responding to the triple bottom line agenda is a critical and ill-researched area. Indeed, this will be a focus of SustainAbility's key work programme in the coming years.

Our overall conclusion is that most CEOs and boards are ill-prepared for the triple bottom line challenge. As explained on page 05, we believe that there is a growing need for sustainability — or triple bottom line — audits of company boards.

Meanwhile it is already possible to list some of the ways in which board-level business people will need to respond — responses which stakeholders would find it reassuring to see reflected in a growing proportion of CEO forewords to corporate environmental and triple bottom line reports.

So, as a first step, here are ten things we would like to see featured in a growing number of CEO forewords in the period 1998—2000. Let's get ourselves in a position to make the best of the 21st century.

1 Signing On and Signing Off

The top management foreword provides a high-profile opportunity for a company's CEO or board to demonstrate that they are signing on to the sustainability agenda. For this to be credible, it helps if the foreword refers to highlights of the report's contents and sets targets.

2 Total Transparency

From factory visits through to your website, demonstrate that you are committed to getting as near to total transparency as you can. And communicate the fact that this isn't just a one-way street. Don't just ask for comments: show that you have seen — and responded — to previous feedback.

3 Corporate Governance

Explain your company's views on necessary changes in corporate governance expectations and rules in support of more sustainable business. Comment on current proposals and their implications.

4 The Role of the Board

If you see the environmental and broader triple bottom line agenda as simply a matter for the environmental, government or public affairs people, tell us why. If, as growing numbers of companies are acknowledging, the sustainability agenda is increasingly helping to shape your company's vision and strategies, tell us how. Explain how the board is involved — and what its role will be over the next 2–3 years.

5 The Triple Bottom Line

Don't be schizophrenic. If sustainable development is important enough to talk about in the foreword of your annual environmental report, surely it is also worth a mention in the foreword to your company's mainstream annual report and financial accounts? Explain the links between your company's environmental, social and ethical performance and its financial prospects.

6 Global Operating Standards

Unless you operate in a single country, the chances are that you are already having to make sense of different regulations, standards and expectations in different markets. In a globalising market, these pressures will intensify — and in a 'CNN world' mistakes and missteps will increasingly take place in the public eye. Explain how you see the challenge, pick out issues you are currently wrestling with — and tell us how your board plans to move forward.

7 Verification

The credibility of the data is a critical factor in ensuring the credibility of your company's report and accounts. You may feel you can get by without independent verification, but given the trend towards it, this decision must be explained. If you already have your report verified, discuss what will happen as you expand the coverage from environmental protection and eco-efficiency to triple bottom line indicators.

8 Successes and Failures

Celebrate the year's successes — but also admit failures or gaps in performance. There will never be a totally sustainable corporation: we are talking about continuous learning. Explain the most important lesson you — or your board — have learned in the past twelve months.

9 Benchmarks and Benchmarking

As the data come in and the metrics evolve, discuss how your company is making sense of the results. Are you benchmarking your performance year-on-year, or against that of competitors or best practice in other sectors? How does the performance of different sites compare in the different countries where you operate? How do you measure up against sectoral benchmarks? Are you pleased or disappointed? What do you plan to do about any areas of weakness?

10 Business Ecosystems

Given the growing importance of 'business ecosystems' (page 16), explain what business ecosystem your company is part of, and what the triple bottom line prospects of that business ecosystem are. If there are major issues, how can they be addressed? Or how do you intend to move to a more sustainable business ecosystem?
Contact Information

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<th>Publishers</th>
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29 Lincoln's Inn Fields  
London WC2A 3EE  
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F +44 171 831 8054  
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www.anglianwater.co.uk  
T +44 1223 547 559  
F +44 1223 372 166  
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F +1 602 554 3556  
Dave Stangis |
| **The Prince of Wales Business Leaders Forum**  
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F +44 171 467 3610  
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F +46 8 402 5860  
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www.kf.se  
T +46 8 743 1000  
F +46 8 743 1513  
Ethel Forsberg |
| **SustainAbility Ltd**  
49—53 Kensington High Street  
London W8 5ED  
www.sustainability.co.uk  
T +44 171 937 9996  
F +44 171 937 7447  
John Elkington | **Bristol-Myers Squibb**  
www.bms.com  
T +1 315 432 2731  
F +1 315 432 4761  
George Nagle | **Neste Group**  
www.neste.com  
T +358 204 504 118  
F +358 204 504 832  
Carola Teir-Lehtinen |
| **United Nations Environment Programme**  
Industry and Environment  
39—43 Quai André Citroën  
75739 Paris Cedex 15  
www.unepie.org  
T +33 1 4437 1450  
F +33 1 4437 1474  
Nancy Bennet | **British Petroleum Plc**  
www.bp.com  
T +44 171 496 4801  
F +44 171 496 4707  
Dr Peter Scupholme | **Novo Nordisk A/S**  
www.novo.dk  
T +45 4442 2554  
F +45 4444 4039  
Lise Kingo |
| | **Danish Steel Works Ltd**  
www.dansteel.dk  
T +45 4777 0333  
F +45 4772 4666  
Jan Laurberg List | **Rhône-Poulenc SA**  
www.rp.rpna.com  
T +33 1 4768 1128  
F +33 1 4768 2915  
Jacques Salamitou |
| | **Eastern Group Plc**  
www.eastern.co.uk  
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F +44 1473 554509  
John Morgan | **Rohm and Haas Company**  
www.rohmhaas.com  
T +44 181 686 8844  
F +44 181 680 7907  
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| | | **Royal Dutch / Shell Group**  
www.shell.com  
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## The 100 Companies Surveyed

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Engaging Stakeholders Publications

UNEP/SustainAbility
Engaging Stakeholders,
Volume 1: The Benchmark Survey,
1996.

Covers international trends in corporate environmental reporting; introduces new and revised reporting and benchmarking tools; summarises the 1996 UNEP / SustainAbility benchmark survey results.

UNEP/SustainAbility
Engaging Stakeholders,
Volume 2: The Case Studies,
1996.

Focuses on the activities and perspectives of 12 very different users of corporate environmental reports, from countries as different as Sweden and Thailand — and ranging from the Danish and Dutch environment ministries, through Greenpeace and CERES to a number of financial risk rating agencies.

UNEP/SustainAbility
Engaging Stakeholders,
The 1997 Benchmark Survey,
1997.

Analyses 100 Corporate Environmental Reports (CERs) from 16 different sectors and 18 countries. The survey identifies areas of strength and weakness in company environmental reporting and highlights examples of best practice. Part of the ongoing Engaging Stakeholders programme, it has been carried out by SustainAbility and is supported by UNEP and 18 participating companies.

Required reading for all of us involved in preparing reports.
Hugh Somerville
Head of Environment
British Airways

To order The CEO Agenda or any other Engaging Stakeholders publication, or for any other information, please contact SustainAbility at the following address:

SustainAbility Ltd
49–53 Kensington High Street
London W8 5ED
www.sustainability.co.uk
T +44 171 937 9996
F +44 171 937 7447