Tomorrow's Value
The Global Reporters
2006 Survey of Corporate Sustainability Reporting
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About this report

Tomorrow’s Value presents the results of the 2006 Global Reporters survey of corporate sustainability reporting. The Global Reporters research program would not be possible without the financial support of companies and organisations dedicated to high quality corporate transparency and disclosure. We express our sincere thanks to our major sponsors Pfizer and The Skoll Foundation, and to the ten other supporters, ABN AMRO, BHP Billiton, the US Environmental Protection Agency's Climate Leaders Program, The Coca-Cola Company, Co-operative Financial Services, Ford Motor Company, Natura, Novo Nordisk, Starbucks Coffee Company and Telecom Italia, who together ensured that the 2006 round happened. The Skoll Foundation contribution came as part of our three-year Skoll Program on Entrepreneurial Solutions to Sustainability Challenges. All sponsors were updated on progress, but they did not have any form of editorial control.

What do you call your report?

The answer varies by region, by industry and by company, over time. Among current favourites: corporate responsibility, CSR, extra-financial, GRI-style, environmental social and governance (ESG), non-financial, social and environmental performance, and sustainability reporting. “There is no perfect answer,” said one of our advisors. “This feels like the old battle between the accountants and the environmentalists,” said another. “Words like ‘non’ and ‘extra’ imply the accountants are core — and activists have lost the battle.” In response one analyst suggested if it was non-financial, he’d be out of a job. Yet another observed, “It would be good to see consensus on a preferred nomenclature.” With the launch of the Global Reporting Initiative’s G3 guidelines sustainability reporting seems to have gathered some support. In this report we use sustainability reporting and talk more specifically of ESG disclosures when we examine the needs of investors.
Lightbulbs are switching on in CEO brains. In the two years since our 2004 benchmark survey Risk & Opportunity, the spotlight has expanded to encompass not only corporate risk but also market opportunity. Companies like BT, General Electric and Wal-Mart are helping change the game by beginning to build sustainability factors into their competitive strategy. Tomorrow’s Value signals the start of the coming race to demonstrate that sustainability strategies, performance and reporting can deliver — and are delivering — value and competitive benefits.

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**Signs of spreading illumination**

— The pack of new entrants storming up our 50 Leaders chart, suggesting that the appetite for innovation in reporting continues to grow.

— Value creation is increasingly surfacing as a theme in reports and their titles, as in the 2005 Philips report Creating Value.

— Our top-scoring company defines the ‘third generation’ business case as focusing on the marketplace, solutions and support for competitive bids.

— Leading corporate reporters are now expanding their coverage to embrace emerging economy issues, but they are being outflanked by a small but growing number of non-OECD companies which have ambitions to develop powerful brand positions as they break into international markets.

— As a result, companies seen to be overly focused on accountability and risk could find themselves marked down as laggards at a time when mainstream markets are switching on to challenges like climate change and carbon trading.

— True, robust risk reporting is increasingly the baseline expectation of investors, but alongside downside risks, financial analysts are becoming more interested in upside opportunities for market growth, market share and profits.

— The 2006 pack score relatively low in terms of their efforts to educate the investment community on the value of sustainability-related performance, but at the same time new types of entrepreneur, in ‘cleantech’, ‘greentech’ and social enterprise, are attracting growing support not only from philanthropists but also from venture capitalists and financial institutions.

— So, at a time when some of the fizz may be going out of corporate reporting, how can business leaders recharge the agenda, and communicate their commitment to innovation and scalable sustainability solutions? This challenge will be addressed in more detail in a separate Global Reporters publication, due out in 2007.
Tomorrow’s Value, SustainAbility’s fourth international benchmark of corporate sustainability reporting, has once again been developed in partnership with the United Nations Environment Programme (UNEP) and Standard & Poor’s. This year we introduce a revised methodology, developed in close consultation with experts and leading corporate reporters, and — in line with our sense that the focus also needs to shift beyond disclosure and reporting to communication — we have adopted a portfolio approach. Tomorrow’s Value is the flagship document in a suite of publications exploring wider aspects of reporting, including communication with financial analysts and the wider innovation agenda.

The field is currently extremely dynamic, with new entrants making up half of the 50 Leaders (Figure 1). Strikingly, half of the Leading 50 companies are complete newcomers, including four entrants from non-OECD countries. The pressures driving improved sustainability reporting continue to grow, with the Global Reporting Initiative’s recently launched G3 guidelines providing renewed impetus in terms of international standardisation. In parallel, the slow, grudging awakening of financial markets is being accelerated by growing concerns around climate change.

Tomorrow’s Value asks the question: How far has the value lightbulb switched on in corporate brains and boardrooms? On current evidence, the answer is that the links between the evolving sustainability agenda and wider market opportunities are now better understood — with a small number of companies reporting the relationship with value in increasingly interesting ways. Partly as a result, some parts of the financial community are gearing up their use of non-financial, extra-financial and/or sustainability disclosures to better understand emerging environmental, social and governance risks. Nonetheless, our expert panel (page 9) concluded that most companies are still missing an important opportunity to communicate with financial analysts and institutions.

Conclusions

Key findings of the 2006 benchmark survey include:

Yesterday’s risks are mutating into tomorrow’s opportunities for value creation. Leadership companies — including BP, BT, GE and Philips — are shifting the focus of their sustainability strategy towards a more progressive and entrepreneurial approach that seeks to identify opportunities for strategic innovation and market building. The pioneers are still a minority, representing a quarter (28%) of our Leading 50, compared to 60% who demonstrate a more conservative, risk focused approach, but their numbers will likely grow.

Financial markets welcome — and challenge — sustainability disclosures. Cutting-edge sustainability reports are framed as a key component of — and platform for — a portfolio of information available to both socially responsible investment (SRI) funds and, increasingly, to mainstream investors. Our panel of financial experts agreed that their sector’s appraisal of stock volatility and long-term value is now benefiting significantly from heightened corporate transparency. Although around two-thirds (70%) of companies report some interaction with investors on sustainability matters, many reports still lack the hard targets and forward-looking information that makes required reading for analysts.

Sustainability drills into core business processes. Most so-called sustainability reports only constitute steps in that direction, but there has been a leap in the proportion of companies reporting the integration of sustainability-related factors into core decision-making. A central concept has been ‘materiality’, helping companies sort the critical risks and opportunities from the background noise. This year at least 80% of companies were rated as integrated on at least one aspect of their reporting, though this result leaves many gaps to be bridged.
Disclosures on public policy initiatives remain precariously weak. Despite growing pressures, under half of corporate reporters fail to sufficiently discuss and link their sustainability initiatives and commitments to the lobbying activities they undertake — and to the wider influence they exercise, either directly or through lobbying and trade organisations. Only around a quarter (28%) of the Leading 50 reporters covered this area meaningfully. That said, this result is a major advance on previous years.

International frameworks provide context and synchronesh. True sustainability reporting will require company-level reporting to be linked with value chain, sector and economy-level targets and reporting. Tomorrow’s Value spotlights — and encourages — an emerging effort by some leading businesses to link their individual targets and activities with broader macro-frameworks, to provide a sense of scale and to help measure the relative impact of individual contributions. The Millennium Development Goals (MDGs) are used in this way by over 20% of the Leading 50 reporters, a trend we see as likely to grow as we move towards the MDGs’ 2015 deadline.

The 50 Leaders

The 2006 results show BT head-and-shoulders in front of the main pack of leading reporters. They come in seven percentage points ahead of the second group — Co-operative Financial Services, BP, Rabobank and Anglo Platinum — all of which achieve impressive scores of over 70%. A small but growing group of non-OECD companies make an excellent showing, with two companies ranking in the top 10, compared with zero in 2004.

The future of sustainability reporting

While the GRI’s G3 guidelines indicate a growing degree of standardisation, there are also signs of a degree of splintering in the sustainability reporting field. Some companies are looking to broader frameworks, like the Millennium Development Goals, to frame their reporting, while others are already straining at the leash and pondering what a G4 set of guidelines might look like — hoping for a further upgrading of the materiality components. As for the future of reporting we sketch a number of trajectories. These include: a progressive hardening of sustainability information requirements; a greater emphasis on value chain performance; a steady but irresistible shift in the centre of gravity of the field towards non-OECD country issues and perspectives; and a growing focus on value creation, business models and scalable, entrepreneurial solutions to sustainability challenges.

Key recommendations

Tomorrow’s Value concludes with recommendations for practitioners, CEOs and boards, and investors. Key recommendations include:

Corporate Responsibility Practitioners: Simplify. Develop and apply robust materiality processes to produce tighter, more focused disclosures on responsibility, accountability and sustainability targets and performance.

CEOs and boards: Rethink. Review the ways in which the sustainability agenda is likely to change the competitive landscape, as through the growing involvement of companies like Wal-Mart. As the spotlight shifts to scalable solutions, how is the company’s strategy and portfolio of initiatives aligned?

Investors: Recalculate. Scrape aside the language issues and identify the key value drivers. Challenge companies to articulate the long and short term value creation potential of their sustainability activities. Watch out for our first briefing for analysts, due out early in 2007.

The 50 Leaders

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<tr>
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Figure 1
Tomorrow’s Value is the fourth benchmark survey of corporate reporting completed under the SustainAbility and UNEP Global Reporters research program. We are delighted to have the continuing support of Standard & Poor’s.

The 2006 round marks a point of departure. We have updated our methodology to recognize the growth and increased rigor of the sustainability reporting field, reward reporters focusing on issues of relevance — and, as far as possible, to adapt it to the growing interest in value reporting and better engage financial markets.

Our work is driven by four hypotheses:
— Sustainable development requires rapid, structural changes in the global economy.
— Harnessing markets to deliver change is a necessary condition to deliver the required scale and pace of change.
— Corporate transparency and disclosure enable stakeholders to hold companies to account and supports the identification of value creation opportunities.
— Successful companies integrate their responses to these three challenges into their core competitive strategies.

We hope that the survey helps signpost the way for reporting companies and report users alike. Your feedback allows us to assess how well we are meeting this goal. Given that we plan future benchmarking rounds, please tell us what you think.

We thank our sponsors and Advisory Committee for their generous support.

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We are delighted to continue our partnership with SustainAbility and UNEP through the Global Reporters Program.

At Standard & Poor’s, our primary interest is providing high quality and independent analysis, risk assessments and data to global financial markets. We view robust transparency and disclosure as key components of a healthy financial marketplace and recognize the important role of non-financial disclosure.

While our friends at SustainAbility should be given full credit for the benchmarking exercise and general report creation, our own involvement has been to contribute to the program’s Advisory Committee and to discuss more generally the role of environmental, social and governance information in financial markets and mainstream financial analysis.

A key feature of this report is its focus on sustainability factors as they relate to fundamental business practices in the reporting companies. This is a practical approach and we believe this report will be of interest not only to firms investing with a specific social agenda, but also to more traditional investors that are looking for indicators of management quality.

We congratulate the 50 leading companies that have been recognized for the quality of their sustainability reporting, as well as the remaining 50 firms given an ‘honourable mention’. At Standard & Poor’s we look forward to participating in further dialogue and research in this area.

George Dallas
Managing Director
Standard & Poor’s

Corporate accountability and transparency are vital ingredients for gaining public confidence and a societal ‘license to operate’. Our latest benchmark survey follows the launch of the third generation of the Global Reporting Initiative (GRI) guidelines. The G3 framework is set to drive further improvements in the quality of sustainability reporting world-wide. As these improvements go mainstream, terms such as ‘non-financial’ and ‘externalities’ should finally become museum pieces.

One of the G3’s ten reporting principles is that of ‘sustainability context’. With leading companies putting greater emphasis on value creation in their reporting, let us remind ourselves of the importance of putting reported activities in context. Reports like UNEP’s Global Environmental Outlook provide valuable international references for highlighting sustainability context and related challenges in different parts of the world. We encourage companies to make use of these sources in their efforts to define measurable contributions to the goals of the Millennium Declaration and the Johannesburg Plan of Implementation.

It is only by putting operations in context that companies will achieve greater use of their sustainability reporting, in addition to improving the connections made with financial reporting. With the GRI G3 framework companies now have a clear choice — to be part of the solution or part of the problem. The new benchmark survey shows that GRI users continue to dominate the sample of leading reporters globally. We urge more reporters and newcomers to converge towards this standard. UNEP also looks forward to continue exploring improved ways of measuring and communicating progress under the Global Reporters Program with SustainAbility, with whom we have worked since 1993 in examining the evolution of best practice in corporate reporting.

Achim Steiner
UN Under Secretary General
Executive Director, UNEP
Tomorrow’s Value spotlights rapid progression in sustainability reporting. This year sees 25 new reporters pushing into our 50 Leaders group — and we congratulate the leading companies both on their achievements and high scores. That said, our analysis suggests that sustainability reporting has reached a key point in its evolution.

Since our last benchmark study in 2004, the number of companies producing sustainability reports has begun to plateau, although reporting hot-spots in South America and Asia still show strong growth. Sustainability reporting has now hit critical mass among leading multinational companies, with no fewer than 75 of the Global 100 reporting.\(^1\) Increasingly, too, we see reports of remarkable sophistication and scope. As a result, reports continue to get longer, partially offsetting efforts made to address materiality in reporting.

In response to these trends — and in close consultation with experts and reporting companies — several key changes have been made to the Global Reporters Program and methodology:

— First, we have moved away from a nomination-based approach to the selection of reports for benchmarking. Instead, we now based our sample on published awards and benchmarks of sustainability reporting.

— Second, we have renamed the top group the ‘50 Leaders’, to reflect our goal that the 50 companies should be reflective of global best practice, rather than constituting the definitive list of the 50 best global reporters.

— Third, we have undertaken a significant evolution of the benchmarking methodology, a process described on pages 11—12.

Tomorrow’s Value contains twelve sections:

2 The Corporate DNA test examines the degree that reporting shows sustainability integrated into core management processes.


4 Methodology introduces the revised Global Reporters methodology.

5 Results and Analysis presents the results of the 2006 Global Reporters benchmark survey.

6 Materiality investigates the application of the materiality concept among the 50 Leader reports.

7 Communication assesses leading practice in the communication of sustainability performance.

8 Influence discusses the coverage of corporate influence over business partners, industry and public policy.

9 Non-OECD Reporting takes a look at reporting in non-OECD markets.

10 Value describes the evolution of reporting on value creation.

11 The Future of Sustainability Reporting presents some thoughts on where all this may be headed.

12 Conclusions and Recommendations provides headline recommendations for practitioners, boards and investors

Over the next year, alongside this main program report, we plan to publish a series of documents drilling deeper into the results — and examining the implications for specific audiences. We plan to publish:

— a briefing on corporate reporting on innovation.

— a briefing for the analyst community.

— a practitioner’s guide to issue identification.

— an analysis of current reporting on public policy activities.
Top reporting companies often argue that reporting helps drive internal change. But the fact remains that reading a company’s sustainability report is a poor substitute for getting in close and carrying out a professional audit. And even the best audits are snapshots, poor substitutes for knowing a company or industry inside out because you work there — and know where the business model’s real flaws are. So, two points to remember: first, evaluating a report is not the same as evaluating a business. And, second, the reported integration of sustainability targets, however good the metrics and however accurate the reporting, does not guarantee that a company is making a net positive contribution across the triple bottom line of sustainable development.

More positively, our research suggests that sustainability thinking is not only incorporated into reporting at leading companies, but is also filtering into boards, brands and business models. The latest revision of our methodology was designed to capture these trends.

The highest score, 4 is defined as ‘integrated,’ with the top ranked companies achieving nearly half of their overall scores at this level. Despite this good performance by leading companies, overall we saw a slight dip in the number of 4 scores from 2004 (11%) to 2006 (almost 10%).

Some areas of integration are well advanced. Take ‘stakeholder engagement’ (2.90 average score), with nearly a third of the 50 Leaders achieving a 4. Companies as diverse as BAA, Enel, Ford, Kesko, Natura and Vodafone scored 4 by providing detailed information on how stakeholders are identified and engaged, and — critically — how their comments and feedback are used to shape decision-making and performance. If stakeholders are giving the right advice, that is real progress.

Operational management procedures also scored well (2.50), as did ‘value chain management’ (2.34) and ‘performance management and training’ (2.50).

Also crucial is the explanation of how business strategy links with long-term sustainable development (2.50). A quick look at how some of the top scorers address this area:

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2 One Planet Business, WWF (forthcoming 2007).
5 Full disclosure: Wal-Mart is a SustainAbility client.
— Novo Nordisk describes its vision for tackling chronic disease and diabetes, together with how the company’s strategy is designed to work towards this.

— Veolia aligns its vision squarely behind environmental protection, asserting that ‘environmental solutions are our business:’

— Philips describes how its business strategy links to work it is doing in different markets, and how it is innovating to improve its contributions to sustainable development.

A number of business processes scored poorly overall, however, with ‘integration of sustainability issues into public policy and regulatory affairs’ averaging just 1.70 and ‘investor relations’ even lower at 1.46, the lowest scoring criterion (just ahead of learning and knowledge management at 1.52).

Considering the importance of the ‘influence agenda’ (see page 23) integration in these areas will have to progress quickly.

So progress overall, but as the resource use of the global economy moves beyond the limits of the planet’s capacity integration at these levels will not ensure a sustainable future, either for these companies or for wider society. Genuinely sustainable business will need to operate within integrated market and government policy frameworks. As discussed in our Wal-Mart case study (see below), supply-chain dimensions need much greater attention. In parallel, financial markets must work out how to reward long-term value creation. And governments need to re-engineer subsidy and incentive regimes, evolving new market mechanisms and pricing signals. Business has a key role to play here, as argued on page 23.

### Wal-Mart: reporting’s 800-pound gorilla

Recently, SustainAbility took part in a World Economic Forum session on the 2007 Davos summit agenda — and a WEF staffer noted that in their conversations with major companies this year, sustainability had been the ‘800-pound gorilla in the room.’ Similarly, as we talked to companies, Wal-Mart has been a looming presence — because its publicly declared intention to green its supply chain is resulting in a growing pressures on its 60,000-plus suppliers. It all began in 2005, when Wal-Mart CEO Lee Scott announced that the giant retail company planned to begin the process of going green. Sceptical observers wondered whether this wasn’t simply more public relations, in response to intense campaign by communities, unions, environmentalists and others, but Scott stressed the company had reached a tipping point. Hurricane Katrina had come through Wal-Mart’s geographical backyard, and Scott had experienced an epiphany — waking up to the fact that environmental issues are pretty much ‘Katrina in slow motion’. For a sense of the implications of all this for scalable solutions to sustainability challenges, check the coverage of Wal-Mart’s strategy on compact fluorescent light-bulbs.

We asked Harriet Hentges, Senior Director, Stakeholder Engagement at Wal-Mart, four questions about the company’s plans:

**What is driving Wal-Mart to report?** SRI investors have been asking Wal-Mart to report for a number of years, including through shareholder resolutions. With Lee Scott’s announcement in October 2005 of environmental goals and the steps we are taking to deliver on them, the timing is right to report on our progress in 2006.

We have reports on a number of efforts elsewhere, for example on diversity and ethical standards in sourcing, but we haven’t collected all these initiatives into one place. We recognise there’s a value internally to doing this — that it helps clarify what we are about for our associates, but it also is important to all of our stakeholders.

**Who will your reporting be aimed at?** We have engaged already with many internal and external stakeholders — and it’s clear that the scale of Wal-Mart’s business means we have relationships with a rather unique range of stakeholders. For example, we have over 60,000 suppliers and millions of customers in many communities in the US and abroad. Our suppliers are eager to learn more about what we do. We hope that some will replicate what we are doing and that others will learn more about us.

**What’s your ambition?** We think sustainability reporting can be a lot more powerful as a driver of change than it currently is. We don’t necessarily want to follow the pack — and won’t shy from breaking new ground. I suspect that means we won’t produce an 80-page report filled with text and data. Our reporting should be transparent, readable, accessible and consistent with the Wal-Mart culture. It needs to tell the story of our journey on sustainability.

**How will you know you’re being successful?** That’s really hard to say — we are still designing our reporting approach. But a key indicator will be seeing others replicating or building on our approach so that we all get better at making business decisions that benefit society writ large.
Value Revolution

An early contender for the title of this benchmark survey was **Buy. Hold. Sell.** Perhaps unsurprisingly, several financial colleagues felt this was potentially a case of over-promising in terms of the investor utility of current corporate reporting. But the original intent of the title remains central to our analysis and conclusions: there is a revolution starting in reporting and it will focus on value. Just as we once tracked a shift from compliance reporting to wider sustainability reporting, we now see the beginnings of a shift towards reporting on what the 2005 Philips report called the processes of 'Creating Value'. Here we look at how far the field has moved towards that goal — and test the utility of current reporting with a panel of leading financial experts.

Third generation business case

Many leading corporate reporters try to address the issue of investor relations by including the logotypes of — or interviews with — socially responsible investment funds. This focus is somewhat surprising given that SRI investors often represent less than 1% of the shareholder base.

BT, our top-scoring reporter, includes the Dow Jones Sustainability Indexes and FTSE4Good logos alongside its Chairman's letter. Interestingly, though, if you go through to the linked website,6 and click on the Investor Centre button, you will find a list of FAQs (frequently asked questions), none of which addresses the sorts of sustainability issues covered in BT’s social and environmental performance report. But this may well change as BT pushes towards 'third generation' business case thinking and reporting (Figure 4).

Investors and financial analysts are becoming more interested in a range of risk and opportunity drivers — particularly in such areas as climate change. But only rarely do they find what they are looking for in today's reports. As explained in Section 10, particularly in Figure 20, our 50 leading reports are still skewed towards risk management rather than towards opportunities for value creation.

Understandable, perhaps, since sound risk management is a pre-condition for success in exploiting new opportunities, but we also find that reporting on targets and forward-looking information remains an area of striking weakness in most reports. The disappointing conclusion: even many leading companies are missing the opportunity to connect with investors, though the sense among members of our financial panel is that significant changes are coming.

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**Figure 4**

**Business case evolution**

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<tr>
<td><strong>Protectors</strong></td>
<td>Health and safety</td>
<td>Flexible working</td>
<td>Sustainability solutions</td>
</tr>
<tr>
<td>Corruption</td>
<td>Diversity</td>
<td>Marketplace diversity</td>
<td></td>
</tr>
<tr>
<td>Privacy</td>
<td>Community investment</td>
<td>Strategic relationships</td>
<td></td>
</tr>
<tr>
<td>Ethical procurement</td>
<td>Charity support</td>
<td>Bid support</td>
<td></td>
</tr>
<tr>
<td>Customer exclusion</td>
<td>Resource efficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pollution</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discrimination</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Value drivers**

- Market place innovation
- Employee motivation
- Cost reduction
- Licence to operate / Reputation
- Risk management

Source: BT
True, none of 50 Leader companies would see their sustainability reports as the primary vehicle for communicating with investors, though many would argue that they represent a critical starting point — or gateway — for investors and other financial stakeholders wanting a wider, deeper view. But our experts underscored the growing need for an over-arching master-plan for disclosure, reporting and communication. Within the overall plan, relevant data and information on material issues will be repackaged for different audiences, investors and financial analysts among them.

Expert roundtable

To stress-test our process and conclusions, we convened a virtual panel of investment experts — some of whose comments can be found in the rest of this section. They were:

— George Dallas Managing Director, Analytical Policy and Research, Standard & Poor’s. A provider of independent research on credit and equity.

— Marc Fox Global Investment Research, Goldman Sachs. Goldman Sachs’ environmental, social and governance (ESG) research works to integrate ESG issues with industrial analysis and valuation on a sector-by-sector basis, and to identify investment themes related to alternative energy, water, and other emerging ESG issues.

— Dominique Habegger Vice President Research, Asset4. Provides integrated financial and extra-financial information by monitoring over 250 specific economic, environmental, social and governance factors.

— Ivo Knoepfel Managing Director, onValues Ltd. Provides independent investment advice to a whole range of institutional clients. Is in charge of monitoring the quality of ESG investment research for the Enhanced Analytics Initiative.

— Colin Melvin Chief Executive, Hermes Equity Ownership Services Limited. Decides whether to engage or disengage with companies on behalf of his clients, rather than recommending buy or sell decisions.

Some conclusions

Pulling together our analysis of best practice reporting with the outputs of the roundtable, we identified six conclusions in terms of the prospects for the future of reporting.

Reporting is a basic requirement

“Today nobody really debates the need for reporting,” said Dominique Habegger of Asset4. “Instead, the real debate is about how to achieve better reporting. Reporting that is targeted to the specific issues — and comparable between companies and over time.” The ‘uncertainty risk’, which is obviously linked to a company’s lack of transparency on its ESG dimensions, leads in general to excess volatility and overreaction in particular on the occurrence of an unexpected event.

It’s financial — or it hardly counts

Current reporting is seen as stronger on ‘soft’ information than on the sort of ‘hard’ data analysts need and expect. But Colin Melvin of Hermes noted that, “These reports have become more important as our client interest grows and pressure on pension funds increases.” As Marc Fox of Goldman Sachs put it, “company disclosure on ESG performance is critical to our analysis. We incorporate ESG data from publicly disclosed sources including annual reports, sustainability reports, proxy statements and company web sites. If you look at the recent developments within the financial community, ESG is increasingly a part of mainstream finance. What we have seen to date is only the beginning of the mainstream financial community being asked by clients to integrate ESG issues.”

To encourage further ‘hardening’, our methodology emphasises areas such as the business case, governance responsibilities and structures, risk management, and investor relations. Note, however, that the lowest average score (1.52 out of 4) in the 2006 benchmark survey was awarded in respect of the extent to which companies try to educate the investment community on the value of sustainability-related performance. Exceptions tend to be in sectors that are now very clear about their most material issues and the extent to which they are potential value drivers, for example the energy sector with climate change, or the apparel sector with human rights.

It’s about long term drivers of value

Short-termism is getting a bad name, even in the short sighted world inhabited by many investors. In particular, there is growing concern among companies, analysts and fund managers about the impact of quarterly earnings guidance — based on evidence that as chief executives become increasingly obsessed with meeting quarterly forecasts they potentially damage the interests of shareholders and undermine sound corporate governance. One indication of this trend was the call by the Business Roundtable Institute for Corporate Ethics (part of an organization representing some 160 US CEOs) and the CFA Institute (grouping more than 80,000 analysts and fund managers) for quarterly guidance to be scrapped.

Some major companies, including Intel, Motorola and Pfizer, have already stopped focusing on short-term, self-imposed targets. Remarkably, even the father of the shareholder value concept — Alfred Rappaport — recently criticized the widespread top executive focus on short-term earnings. The focus, he said, should be on long-term profit maximisation.
Investors are increasingly interested — but can’t find what they want

If you accept that long-term value creation should be the focus, then a range of factors currently labelled ‘non-financial’ or ‘extra-financial’ become relevant. Investors, as a result, could become more interested in forward-looking reporting, an area in which current sustainability reporting is weak. In parallel, chief financial officers who have been totally absorbed in ensuring compliance with new rules — particularly the US Sarbanes-Oxley Act — are complaining about its backward-looking nature and paying more attention to the links between corporate governance and strategic choices. These are often labelled ESG (environmental, social, governance) factors. Institutional investors and fund managers who have endorsed the UN Principles for Responsible Investment represent investment funds valued at more than $4 trillion. They argue that ESG considerations are essential to good business — and fall well within the obligations of fiduciary duty.

It’s value — and ESG, ‘stupid’

As the links between ESG and business performance become increasingly clear, so we see growing efforts to understand and quantify those links. Consider the Enhanced Analytics Initiative (EAI), an international collaboration between asset owners and asset managers aimed at encouraging better investment research, which has built in ESG considerations from the outset. Ivo Knoepfel, who advises EAI, noted that, “Reports have become more meaningful for specialist ESG investors, but are still not very appealing for mainstream analysts, too much prose, too much text, not enough data, not enough facts. [Mainstream analysts] still mainly look to other sources.”

50 Leader companies like BHP Billiton and Kesko use their reports to explain how they now engage with the investor community on the sustainability agenda. BT also includes Henderson Global Investment on their Leadership Panel and uses investor questions to guide their materiality process. In contrast to the investor site, the BT sustainability pages have a specific section for investors, including a presentation on the business case. BT has been an exception though — the focus of corporate reporting is still primarily on risk.

George Dallas of Standard & Poor’s commented, “It is easier to see where the risks manifest themselves. It’s more difficult for analysts to factor [ESG issues] in on the upside. Until we get more research which links ESG with the upside, investors are going to focus on risk. [Standard & Poor’s] have looked at corporate governance (CG) for a long time now, and it is a rare situation when, all things being equal, good CG can improve a credit rating. It’s far more likely that bad CG could hurt a credit rating. Similar sentiments will prevail around ESG issues until there is a clearer empirical foundation in research linking ESG issues with value creation.”

But companies need to be much more specific in this area. “Companies have a lot to gain in explaining in more detail how ESG risks are managed and why they are better at it than competitors,” Ivo Knoepfel explained. And Marc Fox added, “Those who produce ESG reports often come from PR, communications or environmental backgrounds. We find that lack of strategic and financial experience can impede integration of ESG issues. We are less interested in company PR initiatives and more interested in how ESG impacts company performance.”

Capitalist tools

For disclosure, reporting and communication on sustainability issues to provide a seriously useful set of tools for capitalism, various things need to happen. According to Ivo Knoepfel, “ESG issues must be explained in the context of a company’s overall strategy, competitive positioning and new markets. George Dallas agreed, noting that, “sustainability reports can serve as a platform, but other documents need to apply a stakeholder-specific materiality filter. From an investor’s perspective, it is interesting to learn when an ESG factor is breaking into a company’s Top 5 material risk issues overall.”

And all our experts had something to say on the need for sector-specific reporting guidelines and reporting. “The number one thing we’d like to see,” said Marc Fox, “is more companies within a sector coordinating reporting in a consistent fashion. Companies need to understand what performance indicators investors are looking for. Interestingly, we are now seeing the first companies re-stating and updating ESG performance data and targets.” Over the long term, he argued, “companies that demonstrate superior management quality with respect to ESG issues are likely to lead their sectors. But we also look at valuation, performance and traditional industrial outlooks. I cringe at the expression ‘extra-financial’. If ESG issues were not material to financial performance — I’d be out of a job.”

What investors really want — consistency and comparability

Our experts stressed a few key things that investors and analysts want (see Figure 5 below). The Communication section on page 21 looks at how reporters are balancing needs of investors with those of other stakeholder groups.

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**What investors really want**

1. **Time horizons**
   - which extend well beyond 12 months

2. **Meaningful raw data sets**, reported consistently over time and comparable at least within sectors

3. **Limited, focused commentary**, explaining the materiality of issues in financial terms

4. **Information on processes for identifying and managing risks**

5. **Targets and forward-looking statements**

6. **Focused commentary on past performance**

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*Tomorrow’s Value*
**Introduction**

You have a right to know how the rankings shown in *Tomorrow’s Value* were achieved. Unlike most benchmark surveys, the Global Reporters Program is characterized by transparency. The heart of the assessment is the methodology, which is publicly available and open-source. There is no black box, indeed we invite comments from all interested parties on how we might improve the methodology for future benchmarking.

Given that the methodology is published on our website, this section of the report outlines how the methodology has evolved from the 2000 version — and explains how ‘The 50 Leaders’ and ‘Other 50’ reports were selected. The Global Reporters Program is overseen by an independent Advisory Committee (see inside back cover).

**Evolution**

SustainAbility began work on reporting in 1992, publishing its first survey report (*Coming Clean*) in 1993 and its first benchmark survey with UNEP (*Company Environmental Reporting*) in 1994. The shift to sustainability — or triple bottom line — reporting came in 1996, with *Engaging Stakeholders*, and the methodology was revised for a third time (to a lesser extent) in 1998. The next revision came in 2000, to better address the emerging practice of sustainability reporting, and that methodology was repeated in 2002 and 2004.

With *Risk & Opportunity* in 2004, we spotlighted the growing use of ‘materiality’ as central to issue identification in sustainability reporting. It has become a central organising principle for leading reporters. This is important, since the issues covered in reports by banks, for example, bear little resemblance to the issues that must be covered by pharmaceutical companies. Focusing on a standard set of issues makes little sense — and, worse, can encourage what we dubbed ‘carpet-bombing’, with companies covering every conceivable issue to ensure they benchmark well.

This year, in consultation with our Advisory Committee, international experts and reporting companies, we have further updated methodology. It is now better able to assess reporting on core business processes — and test how these address relevant issues. This year, for example, BP showed up well in relation to climate change — which is captured in multiple areas of our methodology (Figure 8).

The response to the revised methodology has been very positive. A few final points to make here are: (1) the methodology is complementary to the GRI guidelines and particularly the Reporting Principles of the G3 guidelines; (2) we are agnostic on language — be it CR, CSR, corporate citizenship, ESG, non-financial, extra-financial — as long as the relevant underlying issues are addressed; (3), the new methodology is designed to promote good quality reporting and communication to audiences that are both informed on basic business and sustainability issues (e.g. investors, opinion-formers, NGOs, employees) and have a stake in the business and (4) the methodology measures the quality of reporting, not performance.

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**Table 1: Methodology development**

<table>
<thead>
<tr>
<th>Focus</th>
<th>2000—2004</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Focus</strong></td>
<td>Performance reporting on specific sustainability issues and if/how these are integrated into business thinking</td>
<td>Generic ‘business processes’ and if/how these take into account sustainability issues</td>
</tr>
<tr>
<td><strong>Examples</strong></td>
<td>Climate change, human rights, materials use, wages and benefits</td>
<td>Issue identification, risk management, entrepreneurial and innovation efforts, marketing and sales, external affairs</td>
</tr>
</tbody>
</table>

**Table 2: Methodology scoring system**

<table>
<thead>
<tr>
<th>Score</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Nothing</td>
</tr>
<tr>
<td>1</td>
<td>Sketchy</td>
</tr>
<tr>
<td>2</td>
<td>Systematic</td>
</tr>
<tr>
<td>3</td>
<td>Extensive</td>
</tr>
<tr>
<td>4</td>
<td>Integrated</td>
</tr>
</tbody>
</table>
Methodology: content and scoring

1 Governance and strategy (12 criteria) Assesses (1) how well a company explains its activities and their associated economic, environmental and social impacts, (2) the governance of sustainability performance and (3) the integration of sustainability into business strategy.

2 Management (9 criteria) Evaluates how well a company reports on implementation processes. The focus here is on the extent to which (1) reporting demonstrates alignment between internal systems and declared intentions, and (2) the report explains the influence of the company on external stakeholders and market conditions.

3 Presentation of performance (4 criteria) Designed to assess how well a given company explains its performance on material issues.

4 Accessibility and assurance (4 criteria) Finally, we examine how successful companies are in designing their reporting approach to meet the needs of key audiences. This includes an assessment of efforts to give readers confidence in the information presented.

Selection process

The process for selecting the 50 Leader reports had four main elements.

1 Report identification Due to growing interest in the Global Reporters benchmarks, we have moved from a submission process to one based on publicly available information. The selection of reports is now based on performance in third-party rankings from a global review of reporting award schemes, benchmarks (e.g. the AccountAbility Rating and national benchmark schemes) and other published indicators relating to the quality of disclosure of sustainability information (e.g. Dow Jones Sustainability Index) with a view to identifying global reporting leaders. This year, the process yielded approximately 100 reports.

2 Classification and selection Reports are identified and classified by sector and geography. The selection of reports is based on performance in third-party rankings and then balanced to reflect sector and geography, based on information provided by CorporateRegister.com. An initial check was carried out to ensure that all reports proposed for inclusion in the 50 Leaders were of a sufficiently high standard. The current company report at the 19 June cut-off date was considered. Where a new company report was published before the end of the research phase (end August 2006), the later report was benchmarked, where possible.

The 50 Leaders

We have renamed the sample of 50 companies benchmarked to better reflect our aspirations — that this group of reporters represents a sample of leading, global reporting companies.

It is quite possible that companies not listed among the Leaders, or among the Other 50, would score well in comparison to some or all of the companies listed.

3 Benchmarking This process is central. Each year the task grows in complexity, in parallel with the sophistication of the companies reporting. On average, a report benchmark takes a specially trained analyst two to three days to complete, depending on the complexity, organisation and length of the report. We recruited a team of four research analysts to deliver the report benchmarking, supplemented by expertise from the wider team. Each researcher was given intensive training on reporting and the mechanics of the methodology and each benchmark was reviewed by a core member of SustainAbility staff. The process ran as follows:

- Reading In-depth review of reports and material on websites.
- Analysis and scoring Scoring of reports against each of the 29 benchmark criteria.
- Quality control Peer review of the analysis.
- Finalisation Updating of scores and records.

4 Finalisation Once the benchmarking was completed, a thorough review of the 50 Leaders was conducted — and of each sector. Where the total score of a report was under 50%, and the report scored under 50% in each benchmark section, it was replaced with an appropriate report from the Other 50.

Methodology: issue treatment

<table>
<thead>
<tr>
<th>Governance and strategy</th>
<th>1. 01 Company and industry profile</th>
<th>1. 02 Top management statement</th>
<th>1. 03 Issue identification and prioritization</th>
<th>1. 04 Principles, values and policies for SD</th>
<th>1. 05 SD vision and business strategy</th>
<th>1. 06 The business case</th>
<th>1. 07 SD implementation challenges</th>
<th>1. 08 Governance structure and responsibilities</th>
<th>1. 09 Risk management</th>
<th>1. 10 Compliance management</th>
<th>1. 11 Meeting tomorrow’s needs</th>
<th>1. 12 Customer influence and market shaping</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>2. 01 Management procedures</td>
<td>2. 02 Supply chain management</td>
<td>2. 03 Stakeholder engagement</td>
<td>2. 04 Personnel management, training and development</td>
<td>2. 05 Learning and knowledge management</td>
<td>2. 06 Public policy and regulatory affairs</td>
<td>2. 07 Industry influence</td>
<td>2. 08 Philanthropy and social investment</td>
<td>2. 09 Investor relations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Presentation of performance</td>
<td>3. 01 Performance and strategy alignment</td>
<td>3. 02 Measuring SD performance</td>
<td>3. 03 SD performance</td>
<td>3. 04 Target setting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accessibility and assurance</td>
<td>4. 01 Assurance</td>
<td>4. 02 Reporting standards</td>
<td>4. 03 Reporting</td>
<td>4. 04 Accessibility of information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 8
Section 5
Results and Analysis

Data for Figures 9–10 and 13–15 provided by CorporateRegister.com

13 Due to the changes made in the benchmarking methodology we have not compared 2006 scores with those from 2004. But we indicate rankings in the 2004 survey.
14 Industry classifications were provided by CorporateRegister.com based on the FTSE classification system.
15 Reporting in accordance with GRI, or including a GRI content index
16 http://www.globalreporting.org/reportsdatabase/

The 50 Leaders

Now for the serious part. Sustainability reporting is a highly dynamic — and highly competitive — area of business thinking and action. Reporting levels continue to grow (Figure 9), although the pace of growth seems to be slowing, partly perhaps because the hurdles for new entrants are constantly increasing. That said, no fewer than half (25) of our 50 Leaders are new to the 50 and four of these break into the Top 10: Anglo Platinum, MTR, Vodafone and Nike. Non-OECD reporters also make a good showing, with two in the Top 10 (none in 2004). Despite the revision of the benchmark methodology, overall scores increased from 2004 — with BT emerging as the clear leader, with a seven-point lead. The methodology changes make it difficult to compare the 2006 results with those for 2004 or earlier, but we include the relevant 2004 rankings as a guide.

The Other 50

The selection of the 50 Leaders as a representative balance of sectors and geographic regions excluded many excellent reports. Therefore, alongside the 50 Leaders, we selected a further group of 50 reporters considered worthy of note. Where appropriate, we have drawn from this wider sample in reaching and presenting our findings.

UK leads pack

Strikingly, the three leading companies are from the United Kingdom. Continental European reporters also put in a good showing, with the Netherlands providing five of the top 50 reports. We also see strong contributions from the US and Japan, though Japanese reporters struggle to break the 50% mark — the exception being Daiwa Securities. MTR (Hong Kong), Anglo Platinum and Nedbank (South Africa), Natura and ABN AMRO Real (Brazil) demonstrate that non-OECD reporters are scoring highly and impacting the reporting agenda.

Banking sector breaks through

In terms of sectors, whereas in past years there was a dominance of players in the extractive, heavy industry and pharmaceutical sectors, the banking sector has broken through — with nine companies from the sector among our 50 Leaders.

Global Reporting Initiative

The GRI has had a profound influence on our 50 Leaders. All these reporters at least make reference to the GRI, with 24 reports formally ‘in accordance’ (a doubling from the 12 recorded in 2004). The recently launched G3 guidelines will have three ‘application levels’ which, it is hoped, will increase their use by companies, particularly those outside of this leadership group. For comparison, Figure 14 shows the proportion of all reports internationally using the GRI Guidelines.15 For the most up-to-date information on the uptake of GRI reporting visit the GRI and CorporateRegister.com database of reports.16
<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Industry</th>
<th>Report Year</th>
<th>Score %</th>
<th>Rank 2004</th>
<th>Rank 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>BT</td>
<td>UK</td>
<td>Telecommunication Services</td>
<td>2005/6</td>
<td>80</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Co-operative Financial Services</td>
<td>UK</td>
<td>Banks</td>
<td>2004</td>
<td>73</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>BP</td>
<td>UK</td>
<td>Oil &amp; Gas</td>
<td>2005</td>
<td>72</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>New Anglo Platinum</td>
<td>South Africa</td>
<td>Mining</td>
<td>2005</td>
<td>70</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>New Rabobank</td>
<td>Netherlands</td>
<td>Banks</td>
<td>2005</td>
<td>70</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>New Unilever</td>
<td>UK/Netherlands</td>
<td>Food Producers &amp; Processors</td>
<td>2005</td>
<td>67</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>New MTR</td>
<td>Hong Kong</td>
<td>Transport</td>
<td>2005</td>
<td>66</td>
<td></td>
<td>7</td>
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<tr>
<td>New Vodafone</td>
<td>UK</td>
<td>Telecommunication Services</td>
<td>2005/6</td>
<td>66</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>New Shell Group</td>
<td>UK/Netherlands</td>
<td>Oil &amp; Gas</td>
<td>2005</td>
<td>65</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>New Nike</td>
<td>US</td>
<td>Household Goods &amp; Textiles</td>
<td>2004</td>
<td>64</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>New Novo Nordisk</td>
<td>Denmark</td>
<td>Pharmaceuticals &amp; Biotechnology</td>
<td>2005</td>
<td>64</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>New ABN AMRO Real</td>
<td>Brazil</td>
<td>Banks</td>
<td>2003/4</td>
<td>61</td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>New BHP Billiton</td>
<td>Australia</td>
<td>Mining</td>
<td>2005</td>
<td>61</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>New Philips</td>
<td>Netherlands</td>
<td>Electronic &amp; Electrical Equipment</td>
<td>2005</td>
<td>61</td>
<td>39</td>
<td>12</td>
</tr>
<tr>
<td>New ABN AMRO</td>
<td>Netherlands</td>
<td>Banks</td>
<td>2005</td>
<td>60</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>New HP</td>
<td>US</td>
<td>Information Technology Hardware</td>
<td>2006</td>
<td>60</td>
<td>10</td>
<td>15</td>
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<tr>
<td>New Anglo American</td>
<td>UK</td>
<td>Mining</td>
<td>2005</td>
<td>59</td>
<td>12</td>
<td>17</td>
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<tr>
<td>New GSK</td>
<td>UK</td>
<td>Pharmaceuticals &amp; Biotechnology</td>
<td>2005</td>
<td>59</td>
<td></td>
<td>17</td>
</tr>
<tr>
<td>New Rio Tinto</td>
<td>UK/Australia</td>
<td>Mining</td>
<td>2005</td>
<td>59</td>
<td>8</td>
<td>17</td>
</tr>
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<td>Australia</td>
<td>Banks</td>
<td>2005</td>
<td>59</td>
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<td>adidas Group</td>
<td>Germany</td>
<td>Household Goods &amp; Textiles</td>
<td>2005</td>
<td>58</td>
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<td>British American Tobacco</td>
<td>UK</td>
<td>Tobacco</td>
<td>2005</td>
<td>58</td>
<td>4</td>
<td>21</td>
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<tr>
<td>Kesko</td>
<td>Finland</td>
<td>Food &amp; Drug Retailers</td>
<td>2005</td>
<td>58</td>
<td>14</td>
<td>21</td>
</tr>
<tr>
<td>New Watercare Services</td>
<td>New Zealand</td>
<td>Water</td>
<td>2005</td>
<td>58</td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>New Ford</td>
<td>US</td>
<td>Automobiles &amp; Parts</td>
<td>2004/5</td>
<td>57</td>
<td>16</td>
<td>25</td>
</tr>
<tr>
<td>New General Electric</td>
<td>US</td>
<td>Diversified Industrials</td>
<td>2006</td>
<td>57</td>
<td></td>
<td>25</td>
</tr>
<tr>
<td>Natura</td>
<td>Brazil</td>
<td>Personal Care &amp; Household Products</td>
<td>2005</td>
<td>57</td>
<td>16</td>
<td>25</td>
</tr>
<tr>
<td>Statoil</td>
<td>Norway</td>
<td>Oil &amp; Gas</td>
<td>2005</td>
<td>57</td>
<td>13</td>
<td>25</td>
</tr>
<tr>
<td>Lafarge</td>
<td>France</td>
<td>Construction &amp; Building Materials</td>
<td>2005</td>
<td>55</td>
<td>21</td>
<td>29</td>
</tr>
<tr>
<td>New Mecu</td>
<td>Australia</td>
<td>Banks</td>
<td>2005</td>
<td>54</td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>New BAA</td>
<td>UK</td>
<td>Transport</td>
<td>2005/6</td>
<td>53</td>
<td>6</td>
<td>31</td>
</tr>
<tr>
<td>New Veolia Environnement</td>
<td>France</td>
<td>Support Services</td>
<td>2005</td>
<td>53</td>
<td>16</td>
<td>31</td>
</tr>
<tr>
<td>New PotashCorp</td>
<td>Canada</td>
<td>Chemicals</td>
<td>2004</td>
<td>53</td>
<td></td>
<td>33</td>
</tr>
<tr>
<td>New BBVA</td>
<td>Spain</td>
<td>Banks</td>
<td>2005</td>
<td>52</td>
<td></td>
<td>34</td>
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<tr>
<td>Daiwa Securities Group</td>
<td>Japan</td>
<td>Speciality &amp; Other Finance</td>
<td>2005</td>
<td>52</td>
<td>39</td>
<td>34</td>
</tr>
<tr>
<td>New DSM</td>
<td>Netherlands</td>
<td>Chemicals</td>
<td>2005</td>
<td>52</td>
<td></td>
<td>34</td>
</tr>
<tr>
<td>New Gap</td>
<td>US</td>
<td>General retailers</td>
<td>2004</td>
<td>52</td>
<td>48</td>
<td>34</td>
</tr>
<tr>
<td>New SAS</td>
<td>Sweden</td>
<td>Transport</td>
<td>2005</td>
<td>52</td>
<td></td>
<td>34</td>
</tr>
<tr>
<td>New Migros</td>
<td>Switzerland</td>
<td>Food and drug retailers</td>
<td>2005</td>
<td>51</td>
<td></td>
<td>39</td>
</tr>
<tr>
<td>New Vancity</td>
<td>Canada</td>
<td>Banks</td>
<td>2003</td>
<td>51</td>
<td></td>
<td>39</td>
</tr>
<tr>
<td>New Suez</td>
<td>France</td>
<td>Diversified Industrials</td>
<td>2005</td>
<td>49</td>
<td></td>
<td>41</td>
</tr>
<tr>
<td>New Enel</td>
<td>Italy</td>
<td>Electricity</td>
<td>2005</td>
<td>48</td>
<td></td>
<td>42</td>
</tr>
<tr>
<td>New Henkel</td>
<td>Germany</td>
<td>Personal Care &amp; Household Products</td>
<td>2005</td>
<td>48</td>
<td></td>
<td>42</td>
</tr>
<tr>
<td>New Nedbank Group</td>
<td>South Africa</td>
<td>Banks</td>
<td>2005</td>
<td>47</td>
<td></td>
<td>44</td>
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<tr>
<td>New Fuji Photo Film</td>
<td>Japan</td>
<td>Media &amp; Photography</td>
<td>2005</td>
<td>47</td>
<td></td>
<td>45</td>
</tr>
<tr>
<td>Sony</td>
<td>Japan</td>
<td>Electronic &amp; Electrical Equipment</td>
<td>2005</td>
<td>45</td>
<td>45</td>
<td>46</td>
</tr>
<tr>
<td>KarstadtQuelle</td>
<td>Germany</td>
<td>General Retailers</td>
<td>2005</td>
<td>43</td>
<td>25</td>
<td>47</td>
</tr>
<tr>
<td>New Seven and I Holdings</td>
<td>Japan</td>
<td>General Retailers</td>
<td>2005</td>
<td>42</td>
<td></td>
<td>48</td>
</tr>
<tr>
<td>New Nissan Motor</td>
<td>Japan</td>
<td>Automobiles &amp; Parts</td>
<td>2005/6</td>
<td>41</td>
<td></td>
<td>49</td>
</tr>
<tr>
<td>New Telus</td>
<td>Canada</td>
<td>Telecommunication Services</td>
<td>2005</td>
<td>39</td>
<td></td>
<td>50</td>
</tr>
</tbody>
</table>
Despite the use of the materiality concept (page 19), the average length of leading reports is still increasing. While online reporting makes the exact page length hard to assess, the average report length among the 50 Leaders in 2006 is just over 90 pages (up from 72 pages in 2004). This is significantly higher than the 45 pages CorporateRegister.com shows for all reports. Most (42) of the 50 Leaders make additional information available online. Best practice here includes BP (excellent mapping tools), BHP Billiton (well-structured website) and O2 (build your own report).

Governance and strategy
Top scores
BT, BP, MTR, Philips, Rabobank

In 2004 we flagged corporate governance as growing in importance. While the space devoted to corporate governance has increased in the latest round, the degree of sustainability integration has not. But we see progress in the fact that many reports focus on the board’s role, membership and structure (including the number of non-executive directors), even though discussion of specific accountability for sustainability issues at the board level remains limited. Companies that do a good job in this area include: Anglo Platinum, BT, Ford, GSK, Nedbank, Nike and Rabobank.

The 2006 BT report offers a comprehensive account of the company’s values and business principles — and discussion of how they are implemented and monitored. There is good coverage of how stakeholder engagement is used to identify material issues, an overview of how sustainability issues are integrated into risk management, and a clear mapping of how accountability is allocated across the group hierarchy. In terms of strategy, the report explains how BT’s plans for its ‘21st Century Network’ links to issues like energy use and carbon reduction.
One of the best examples of integrated strategy is BP’s low-carbon energy business, BP Alternative Energy, aiming to invest $8 billion over ten years in generating and marketing cleaner power from solar, wind, hydrogen and gas sources. BP Alternative Energy seeks to grow five- to ten-fold over a decade. By 2015, BP Alternative Energy hopes to reduce GHG emissions by 24 million tonnes a year, the equivalent to making a city the size of Berlin emissions-free.

Similarly, GE reports on its evolving ‘Ecomagination’ growth strategy to help meet customer demand for more energy-efficient, cleaner products. The product pipeline increased by more than 75% in the year reported. GE also predicts that 60% of its growth will come from emerging markets, and describes its strategy to add value in these regions.

Management
Top scores
BT, Co-operative Financial Services, GSK, HP, Natura, Nike

Leading reporters are pushing beyond the description of traditional management systems to a clearer articulation of how they manage material issues. Again, BT leads in this category, with a particular strength in its management of (and influence upon) customers, suppliers, stakeholders, industry peers and the public policy agenda.

The new methodology includes two new criteria: personnel performance and knowledge management, intended to give the reader a sense of how well employees are equipped to address sustainability issues and how well the company is positioned to retain its intellectual capital. While scores on these criteria are generally low across the 50 Leaders, GSK gets full marks in each of them.

As noted in 2002 and 2004, reporting in the area of supply chains continues to gain traction. Companies in the apparel (adidas, Gap, Nike) and electronics (BT, HP, Philips) sectors excel in this category. Nike’s disclosure of its factory base in 2005 was a huge step. In addition to detailed charts of violations of their codes of conduct, these companies use tools such as ‘integrated sourcing scorecards’ to make purchasing decisions. Some have used root-cause analysis to analyse — and begin to shift — the relationship between production deadlines and working conditions.

Management of stakeholder engagement has become a reporting staple. Leading reporters provide examples of how engagement has influenced business decisions and processes. For example, stakeholder engagement is embedded in Shell’s project impact assessment process, is a key component of Rio Tinto’s Closure Standard, and is distributed throughout Natura’s corporate functions.

Figure 13

2005 report output
Percentage of reports / Sector

Figure 14 / Figure 15

Uptake of GRI guidelines
Percentage of reports / Year

Average page count
Pages / Year
If early reporting focused on promises, policies, management systems and stakeholder processes, the performance component has become central for our leading reporters. The challenge, however, is working out how to report on performance in a meaningful way. The aim of this section of our methodology is to assess how well a company explains its performance in relation to material sustainable development issues. It looks at how companies report performance on their material issues — and at how links are made with core business strategy. This linking is an area where reports remain fairly weak: no one scored the top mark of 4. In the case of Ford, for example, Bill Ford identified headcount reduction and reskilling as key issues in his CEO statement, but actual performance in these areas was not included in the sustainability report.

Reporting on performance against material issues is somewhat better handled, with Watercare Services and Anglo Platinum both scoring 4. Anglo Platinum is notable for its discussion of how performance against its Mining Charter commitments impacts its business strategy. Overall, however, even our 50 Leaders tend to be weak in terms of the reporting of their targets — and in the provision of forward-looking performance information. Indeed, four companies among the Leaders score zero in this area.

While reporting on operational performance is generally quite strong, companies are weaker in reporting on product and service impacts. Growing numbers of oil and gas companies, for example, are setting clear targets on operational greenhouse gas emissions. On the other hand, targets on product or portfolio issues are much weaker or even completely absent both in this sector and in others. Given the long-standing problem of the missing synchronesh — in the sense that corporate reporting often fails to link to sectoral, value chain, national or international reporting — it is interesting to see some leading companies exploring wider sectoral, national or international frameworks.

Among a growing number of examples are the Millennium Development Goals (MDGs) and South Africa’s Mining Charter. Over half (28) of the 50 Leaders mention some sort of external standard used in framing their reporting. Shell is one of the companies that has taken this approach further than most. It provides a detailed table outlining each MDG, explaining how their core business impacts on the relevant issues, indicating the level of the social investments they make, and outlining the dialogues and policy activities they are involved in.

The following performance reporting self-assessment tool (Figure 16) can be used by companies to assess how comprehensive their performance reporting on priority sustainability issues is — and to identify areas for improvement. Our starting point — that for each of a company’s priority sustainability issues, reporting should disclose both performance in the management of risk and also how well it is managing the opportunities presented. For each issue, tick the boxes to indicate your current practice, the gaps highlight areas for improvement.
### Accessibility and assurance

**Top scores**

Anglo Platinum, BAA, BHP Billiton, BP, BT, Co-operative Financial Services, Vodafone

BP leads on accessibility. There are strong links between their 64-page report and website, with the latter adding real value. Efforts have also been made with accessibility for disabled readers, including speech versions of data charting tools. The report is also available in a range of languages. Indeed, around half of the 50 Leaders produce their report in more than one language. A few reporters stand out in this respect: CFS with 13 languages, for example, and Rio Tinto with 21. US-based reporters are less inclined to offer translations.

Of our 50 Leaders, 17 issue regional or local reports. Energy and extractive companies have led in terms of site and/or regional reporting, but similar approaches are emerging in other industries, e.g. BAA, Daiwa, DSM, Nedbank, Sony and Vodafone. There are many examples of issue-focused reports. For examples, Ford recently released a report focused on climate change while GSK provided additional information on access to medicine.

Several leading 50 companies use (or advocate) GRI sector supplements or other sectoral guidance to focus their reporting. BHP Billiton, for example, applies the Mining and Metals Sector supplement and Anglo American commits to using it from 2007. BT has piloted the telecommunications supplement. Nike and Gap discuss their advocacy for a supplement for apparel and footwear, while MTR leads a trade association working towards reporting standards for the public transit sector.

### Assurance

This area remains one of the most dynamic in the reporting field. Our leading reporters are testing a variety of approaches, suggesting that ultimate convergence and standardisation are still some way off. In fact, in 2006 we see an increase in the number of companies adopting a ‘portfolio approach’ to assurance – choosing specific types of assurance to meet specific stakeholder demands and/or to serve different issues and types of data. Figure 17 takes seven dimensions of assurance and links out to best practice.
New, new thing

It’s an obvious question: are reporters identifying and reporting on the right issues? In 2004 materiality was the new, new thing, sold as one of the great breakthroughs in the reporting field. Since then it has continued to gain prominence, featuring as a key principle in the G3 version of the GRI guidelines and surfacing as one of three principles forming the backbone of the AA1000 Assurance Standard. But, at least in private, practitioners note that the concept remains difficult to implement.

So how are our 50 Leaders doing in this field? Most still find it difficult to balance competing demands from diverse stakeholder groups. While the average score for ‘issue identification and prioritisation’ is fairly high (2.56 out of 4), confirming that most companies have systematic or extensive reporting in this area, even companies that excel in issue identification tend to encounter problems when it comes to prioritization, to materiality.

At the most basic level, there are still wide discrepancies between the issues spotlighted in CEO letters in annual reports and sustainability reports. Some of our leading group of reports still adopt the basic triple bottom line approach, giving equal weight to each of the GRI indicators. As a result, our analysts often struggled to identify the ‘Top 3’ issues in each report. They noted, wryly, that some companies have tried to resolve the issue by prioritizing broad groups of important issues under the headings of ‘environmental footprint’, ‘community impact’ and ‘financial results’ (see Figure 3).

So how do analysts do this in the financial mainstream? They often set a numerical threshold — perhaps 5% of a company’s revenue — to determine financial materiality. Such a calculation would be impossible to duplicate for the array of sustainability issues a typical company faces. It is not difficult to see why ‘carpet-bombing’ has become so prevalent in sustainability reporting. Demands for information have soared, with few usable tools available to sort the ‘wheat’ of information and knowledge from the ‘chaff’ of data.

But progress is certainly being made. A few leading reporters are beginning to break out of their environmental-social-economic silos and are focusing on their most material issues, among them BP, BT, Ford, HP, Shell and Vodafone. While levels of transparency vary in this area, there appears to be a fair degree of consistency in how this small group of leading companies are pursuing the materiality ‘grail’. For example, in this year’s crop of reports BP, BT, Ford and Shell all follow a similar process:

1 Identify issues from external stakeholders and wider society, e.g. via media reviews, website hits, reader surveys, SRI reports, stakeholder interviews/dialogues, peer benchmarks and external commitments.
2 Use internal risk and opportunity identification systems. Refer to corporate policies, values, principles and external commitments.
3 Determine which issues will have the greatest business impact, using tools such as risk analysis, financial impact, business strategy, impact assessments, internal policies, management systems, etc.
4 Prioritize the issues according to the level of external/society concern — and the potential impact on the company and/or its ability to control/influence the issue.

The concept of materiality is derived from the field of financial auditing, where it is defined as, ‘the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement’. Statement of Financial Accounting Concepts No. 2, Qualitative Characteristics of Accounting Information, Financial Accounting Standards Board (FASB).


The G3 version of the GRI includes ‘Relevance and Materiality’ as a reporting principle. It states, ‘The information in a report should cover issues and indicators that would substantively influence the decisions of the stakeholders using the report.’

17 The concept of materiality is derived from the field of financial auditing, where it is defined as, ‘the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement’. Statement of Financial Accounting Concepts No. 2, Qualitative Characteristics of Accounting Information, Financial Accounting Standards Board (FASB).


19 The G3 version of the GRI includes ‘Relevance and Materiality’ as a reporting principle. It states, ‘The information in a report should cover issues and indicators that would substantively influence the decisions of the stakeholders using the report.’
5 Plot the issues on a ‘materiality matrix’ and review (with internal and/or external participants) to ensure accuracy and balance (Figure 23).
6 Report on material issues in printed sustainability reports and/or online, depending on their priority.
7 Continue to manage material issues. Set strategy accordingly, feeding key findings back into the issue identification process.

Three dilemmas

The diagrams look neat enough, but the devil, as always, will be in the details. Here are three key dilemmas that challenge the materiality processes outlined above:

Dilemma 1: Thresholds and weighting

Step 4 in the process above encourages companies to prioritise the issues, but how is this best done? The analysis must take into account the credibility of the source(s) that have identified the issue, as well the frequency and energy with which the issue is raised. Which stakeholders care and how much? What if they disagree? And what if they, too, are blind to emerging issues — how can companies amplify ‘weak signals’? The analysis also needs to consider the maturity of the issue (Figure 24), with issues approaching the ‘Expansion’ stage needing active risk management. Finally, the time frame in which the material issues will likely impact the company must be considered.

By their very nature, most sustainability issues have longer time-frames than traditional business issues. Interestingly, Ford’s materiality matrix establishes greenhouse gas emissions (long-term issue) as more material than the cost of employee health care (a shorter-term issue, but nonetheless with major impacts).

Dilemma 2: Risk and opportunity

For sustainable businesses to achieve scale, companies must increase their focus on how sustainability can add value to the top line (see page 27). Currently, most materiality processes are geared toward measuring risks, and even among the leading reporters the integration of material sustainability opportunities is rare. As Vodafone puts it in its CSR report, ‘A process based on asking external stakeholders to identify issues always tends to emphasize negatives over positives. We accept this as a reality of how people engage with global companies. Our internal materiality assessment focuses on the opportunities that our technology brings to society.’ BP also stresses in its description of how its materiality process was expanded in 2005 that it took care to capture positive issues as well as negative ones. Not surprisingly, perhaps, the banking sector prioritizes opportunities to a much greater extent than more resource intensive sectors.

Dilemma 3: Confidentiality and the ‘materiality iceberg’

Finally, as companies come to view sustainability as a source of competitive advantage, we might expect that they will be increasingly reluctant to be transparent about key results of their materiality assessments.

Only Ford actually reports the issues that fall into all quadrants of its materiality matrix. Other companies focus on explaining their process, leaving their matrices blank. So while the issues in the upper right-hand quadrant of their matrices are included in their reports, readers are actually only seeing the tip of the iceberg. The bulk of the issues, including those following the escalation curve and likely to surface shortly, remain hidden from readers — and competitors.

The journey continues

In closing, we have only taken the first couple of steps on the materiality journey. Most companies still have a way to go in identifying, prioritising and managing their most material issues. The Global Reporting Initiative’s (GRI) new G3 guidelines put materiality at the heart of their reporting principles, encouraging companies not to report on indicators if they are deemed not material. AccountAbility’s forthcoming report — Materiality: Aligning Strategy, Performance and Reporting — promises to be a welcome addition to the corporate practitioners’ toolbox.

While analysts and other stakeholders wait for the next steps in materiality reporting, they will have little option but to rely fairly heavily on assurance statements, preferably produced by those who know the industry well and are not afraid to challenge their client’s reporting on its omissions and other weaknesses.

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Figure 24

Issue escalation and typical corporate response

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Local activists</th>
<th>NGOs</th>
<th>Media</th>
<th>Opinion-formers</th>
<th>Regulators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue status</td>
<td>Fringe</td>
<td>Emergence</td>
<td>Expansion</td>
<td>Escalation</td>
<td>Embedding</td>
</tr>
<tr>
<td>Public exposure awareness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Zone of influence
Pinch-point emerging
Low media profile
Companies often ignore
Time of most influence
Map the common ground

Risk management
Pinch-point is established
Polarization takes place
Companies prioritise issue
Harder to agree common ground

Consolidation
Pinch-point on mainstream agenda
Subject to wide review and regulation
NGOs can step back with the job done
Companies must shape regulations
Explore strategies to regain trust
Section 7
Communication

The central challenge is not to report, but to communicate, engage and learn.

Despite our criticism of ‘carpet bombing’ approaches to reporting in 2002, the size of reports has continued to grow, as Figure 15 demonstrated. And the size of the reports currently offered by our 50 Leaders is even bigger, averaging over 90 pages. Our working hypothesis is that the reporting agenda will morph significantly in the coming years, partly driven by the increased emphasis on materiality, partly by the growing interest in value creation, and partly because sustainability expenditures are likely to come under pressure — whether because of recession, mainstreaming or market pressure from lower-cost competitors from countries like China and India.

The challenge, increasingly, will be to integrate material, usable sustainability information into a range of existing communication channels. In the process, companies are likely to adopt the sort of approach sketched in Figure 25, with a core data set being used to feed an array of communication channels.

This does not mean the end of reporting, but it does mean that getting the investor relations, government relations, community relations, marketing and sales people involved will no longer be an option.

We have yet to see a company transitioning 100% to this approach, but a fair number of those that have been in leading positions in past benchmark surveys are becoming much more sophisticated in how they manage the communication challenge. Novo Nordisk, for example, has been very imaginative in developing its Oxford Health Challenge response to the spread of chronic disease worldwide, effectively a company-led campaign. Other companies, including Dow Chemical and DuPont, have built key parts of their external communication around a limited set of really strategic sustainability targets. And yet others, among them the UK banking group Lloyds TSB, are dropping their single comprehensive reports and switching to an array of more customised communications.

As part of the 2006 benchmark survey we looked at different audiences and communication vehicles for sustainability information: here are a few that stood out.

Investors
The Holy Grail is to convince investors that sustainability issues are material to both the bottom and top lines. While many reporters state that investors are a primary audience for their sustainability reports, the views of our panel on page 9 suggests there is quite a gap between the aim and the execution. So progressive investor relations departments are attempting to mine interesting nuggets of information and include them in investor road-shows and analyst briefings.

Approximately 70% of the Leading 50 reports make reference to communicating sustainability performance to investors. Generally, however, it is not clear whether these efforts were limited to socially responsible investors or extended to mainstream investors. There is a considerable range here, with a company like BHP Billiton describing its annual briefing for SRI analysts, while Enel’s Investor Relation’s Unit reports no less than 31 meetings on sustainability with investors.

Annual report
One obvious way to communicate with investors is through the annual report. Just over 70% of the Leading 50 reporters include at least a reference to their sustainability efforts in their annual report.
Integration of sustainability reporting and annual reporting was a key theme of Risk & Opportunity in 2004. This year there were four integrated reports in the 50 Leaders with the highest integrated reporter, Novo Nordisk, ranked number 10. In 2004 we issued three challenges to integrated reporters – prioritise, give context and get the language right. In 2006 we see signs of progress, but also find reporters questioning whether there is sufficient flexibility within the annual report context to meet multiple stakeholder requirements. The need to supplement Annual Reports with other communication channels makes the approach mapped in Figure 25 even more important for integrated reporters.

**Employees**
An often-cited benefit of sustainability reporting is its ability to galvanise and motivate employees. Approximately 65% of our leading 50 reports mention efforts to communicate with their employees in some aspect of sustainability. Many companies have now integrated sustainability into their internal communications.

Shell and Vodafone, for example, produce sustainability reports tailored for their employees, while companies like Nike and adidas integrate sustainability information into existing employee newsletters and intranets.

**Customers**
Perhaps the area of greatest creativity — and still untapped potential — is in consumer-facing communication. Several retailers (among them Starbucks, Sainsbury and The Body Shop) use in-store leaflets, while Brazil’s Natura uses a hybrid magazine/catalogue to communicate with customers on sustainability issues. A growing number of companies are working to target consumers and customers even more accurately. Both Vodafone and 02, for example, distribute text messages about sustainability issues to their customers through their mobile phones, while some banks include sustainability messages on the bottom of credit-card statements. Other companies, including BP, BT and KarstadtQuelle, use features like carbon calculators or sustainability games in an effort to engage consumers.

In most sectors and in most countries, we are still some way from the point where sustainability issues are recognised as make-or-break for consumer and customer communication. That said, the retail sector has been scrambling to present its green credentials in some European countries, resulting in high profile campaigns in the UK. In Switzerland, meanwhile, the supermarket chain Migros has faced intense competition from the rival Coop chain, and responded by offering a summary version of its sustainability report as a special edition of its weekly newspaper, which goes to 2.5 million of the national population of 7 million. In addition, Migros has run a campaign to brief consumers on social and environmental issues linked to the company’s products, using national newspapers, billboards and the internet.

Indeed, growing numbers of companies now engage their marketing and branding arms, with varying degrees of success. For a sense of how this might help, compare the number of people who saw the advertise-ment for free-range eggs on the side of the McDonald’s delivery truck bustling through the streets of London with those who read the company’s sustainability report on the same day. UNEP now offers the first inter-national online database of advertising campaigns dedicated to sustainability issues (www.unep.fr/pc/sustain/advertising/ads.htm) yet less than half of the Leading 50 reports reference efforts to communicate sustainability through their advertising.

One of the most impressive campaigns of recent times has been GE’s ‘ecomagination’ campaign. A company like Philips may have more green products on the market, with 160 ‘Green Flagship’ products compared with GE’s 30 ecomagination-certified products, but GE unquestionably now has greater global mindshare.

For a sense of what communicators are up against, try visiting GE’s ecomagination website (http://ge.ecomagination.com) and imagine what could happen if and when companies like Google and YouTube start to engage with this agenda. To help companies to track the impact of their stakeholder engagement investments, SustainAbility has developed the tool illustrated in Figure 26, used here to compare three companies: Nike, Mecu and Vodafone. Each may be highly successful in achieving internal communication and engagement targets, but — equally — some of these plots may show up important gaps that need to be bridged.

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**Figure 26**

<table>
<thead>
<tr>
<th>Engagement tool</th>
<th>Employees</th>
<th>Investors</th>
<th>Customers</th>
<th>Community</th>
<th>Government</th>
<th>NGOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nike</td>
<td>Improve ability to deliver on core business strategy</td>
<td>Demonstrate understanding of sustainability as a tool for financial value creation</td>
<td>Create a positive feedback loop where customer demands drive sustainability of corporate strategy</td>
<td>Generate synergy between social investment and business performance</td>
<td>Shift public policy to level the playing field and reward sustainable actions</td>
<td>Integrate feedback from engagement into corporate strategy and core decision-making</td>
</tr>
<tr>
<td>Mecu</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vodafone</td>
<td></td>
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</tbody>
</table>
Farewell to smoke-filled rooms?

Corporate influence on public policy is a hugely sensitive issue. Once, corporate and political lobbying was done in murky, smoke-filled rooms. Much of it still is. Though the smoke may have cleared a little, corporate lobbying around issues like bribery and corruption, chemicals and climate change remains intense. So how far should companies come clean on their public policy positioning and lobbying? How far indeed is it responsible for companies to go? Where are the companies lining up behind scalable, entrepreneurial solutions — and the market mechanisms needed to drive them? And how is all of this being reported in the best of today’s corporate reports?

Whatever the answers, one thing is clear: lobbying is in the spotlight as never before. Why? Because a number of trends are aligning to drive a greater focus on the role that companies have in influencing not only governments but also the thinking and behaviour and approaches of a range of stakeholder groups.

For many industries, the most significant impacts associated with their operations occur during the product use phase, rather than the production phase. Because companies rarely control the use phase, addressing these impacts requires companies to work with other stakeholders.

And in an age of globalization, where outsourcing, offshoring and network models of business are common, ‘control’ types of relationships are increasingly unusual. All of this requires successful companies to be more adept at influencing the behaviour of business partners throughout their value webs.

Leading companies still struggle in this area. Nike, for example explains that in a deeply competitive global environment, “the absence of rigorous systems that align compliance performance with business performance, rewarding and sanctioning factories remains a challenge”. Similarly Ford notes that a key tension for them is between their “recognition that climate change is a major and growing environmental, social and economic challenge, [but] the slowness of markets and policy makers to provide signals on which we can responsibly act”.

Fundamentally, though, business leaders know the score. “I believe that it is part of building good sustainable businesses to help establish safe, secure, stable and peaceful societies,” is the way Peter Sutherland puts it, as Chairman both of BP and Goldman Sachs. “Business thrives where society thrives,” he says. As globalization brings companies into different territories, they are having to work out how to work in partnership with governments and society in addressing such issues as bribery and corruption, poverty, human rights, HIV/AIDS, water availability and climate change.

Entity evaluation

This tool can be used to determine reporting boundaries around the influence companies exert on stakeholders. For example, a pharmaceutical company, reporting on access to medicine might report on:

A Its own performance on the issue.
B Its involvement in relevant trade association initiatives.
C Its role in lobbying national and supranational governments in setting the global trade framework on intellectual property rights.

Other stakeholders may be of less relevance. For example, a company might not report on:

D Its relationship with suppliers.
How companies see influence

Government and stakeholder relations experts in companies see complex force-fields affecting their operations — and many are charged with ensuring that public policy and other parts of their operating environments are (as far as possible) to suit their needs. As they try to report on this area, a series of questions arises: How do you report on ‘influence’? Where are the boundaries? Surely some things have to remain confidential in this area? And how does all of this play out in different geographies?

Initial guidance was offered by GRI with a ‘boundary protocol’, published in January 2005. This included a helpful tool focused on identifying boundaries for reporting on value chain initiatives and performance. We have adapted this tool to reflect the extended responsibility that companies have in exerting influence on wider stakeholders, particularly where issues are considered material (Figure 27).

The responsibility to report on the wider influence that companies exert appears to be a growing trend, though admittedly it is still early days. GSK for example, “seek[s] to influence others” as part of its role in leadership and advocacy. Ford goes so far as to identify its ‘public policy stances’ themselves as among the company’s most material sustainability issues.

Reporting on influence

Wider reporting in our 50 Leaders confirms that ‘influence in the value-chain’ is recognized as a critical issue among our 50 Leaders, achieving an average score of 2.34, alongside ‘influence on customers’ (2.26) and ‘influence on wider industry’ (2.14). Less common, is reporting on ‘influence on public policy’ (1.70) and ‘influence on investors’ (1.46). Let’s take a quick look at three key areas of interest: influence on value chains, industry, and public policy.

Value chains

Companies traditionally resisted efforts to drive their responsibilities back through value chains, arguing that it was impossible to sort out the boundary issues. This position seems to be collapsing, with 15 of the 50 leaders scoring 3 or more. Companies in the apparel sector (e.g. adidas, Gap, Nike) and in the ICT sector (e.g. BT, HP) are particularly strong.

Nike, in particular, broke the mould with its detailed reporting of worker conditions in contract factories and now comfortably — and usefully — discusses how it brings influence to bear through multi-stakeholder partnerships, capacity building and training. In other sectors, Shell talk about their responsibilities in joint ventures: “We invest in projects that are important for achieving our strategy but are not under our operational control. In these cases, we use our influence as a shareholder to encourage, support and monitor the operator’s efforts to manage the project in an environmentally and socially responsible way.” CFS discusses its responsibilities as an investor, including voting at AGMs. Interestingly GSK stresses that it will not seek to influence academics and medical practitioners in conducting clinical studies.

Industry influence

This indicator is unchanged from our previous methodology, so direct comparisons are possible — and show a significant increase from 1.46 in 2004 to 2.14 in 2006. Some companies reference their involvement in broad industry coalitions (e.g. GRI, SIGMA standards, UNGC and WBCSD), but there is a growing focus on industry specific initiatives. BT and Vodafone cite their involvement in work on supply chain standards undertaken with UNEP and partners under the Global e-Sustainability Initiative (GeSI). Philips talks about collaborating with competitors in designing take-back systems: “Our approach is to cooperate with competitors to organise logistics and select certified recycling companies. This is realised by setting up collective take-back systems in the individual member states.” The drivers for investing time, effort and money in industry coalitions seem to focus on cost savings (in adopting common approaches), but there is also ‘safety in numbers’ when tackling problematic issues like bribery and corruption.

Public policy influence

Almost all 50 Leaders have something to say about public policy issues, which represents progress in itself. The average score was 1.70 — compared with an average score of 0.8 for the S&P 100, even if in some cases companies complain about growing regulatory burdens (e.g. HP and Philips protest that product take-back legislation is too complex), or about lack of access to the policy community (e.g. BAT: “It continues to disappoint us that the World Health Organisation in Geneva so far shows no sign of wishing to offer our industry what we regard as proper consultation on issues of mutual concern.”).

Where next on public policy?

The ultimate aim? To get businesses aligning with progressive industry, multi-stakeholder and public policy initiatives. As Margot Wallström, Vice President of the European Commission, put it at the Global Reporting Initiative conference in October 2006, “Progressive economic forces must speak up. Too often it is the least ambitious that define the lowest common denominator. We need a new and louder lobby for sustainable development, innovation, creativity and a future based on smart growth.”

Meanwhile though, public policy remains a thorny subject. Rio Tinto talks about having “some influence over joint venture partners and suppliers such as security contractors, but limited influence over governments and public bodies”, while also acknowledging that “a mix of mandatory regulation and voluntary commitment” is likely to be the best approach. GSK is unusual in providing detailed principles on its work with patient advocacy groups that also play a key role in influencing the policy agenda. And Lafarge hints at the underlying reason for the difficulties: “Like all international industrial groups,” it says, “Lafarge needs to provide full disclosure concerning its business activities, while keeping its strategic affairs confidential.”

This limit to transparency — also found in the value area (page 27) — is likely to become more challenging as the sustainability agenda becomes more mainstream, strategic and competitive. Other thorny public policy issues that the 50 Leaders are yet to get fully to grips with include:

- Reporting on relations with trade associations.
- Disclosing lobbying activities in young democracies.
- The alignment between corporate principles and public policy activities.

We plan a separate briefing on the public policy agenda in 2007.
The famous five

“You’re crazy,” said Mauro Borges, the owner of a loudspeaker advertising vehicle company, when he heard that ABN AMRO Real was lending money in Brazil’s shantytowns. The bank — a new entrant in our 50 Leaders group — was developing microcredit operations inspired by the success of social entrepreneurs like Muhammad Yunus of the Grameen Bank, winner of the 2006 Nobel Peace Prize. When the bank first announced its move into this area, financial market people joked that this was little more than a playground for bank staff. But the availability of credit is crucial for stimulating development. Furthermore, financial institutions can play critically important roles at a time when two things are happening simultaneously: first, many non-OECD countries are trying to work out how to play the game of globalizing capitalism while capitalism, to use the bank’s own phrasing, is “in transition”.

One striking feature of the ABN AMRO Real report was a kick-off section with five Brazilian company leaders from different sectors engaging in a debate on how sustainability can be better integrated into business. Those invited by the bank to share their views were HP Brasil, Petrobras Distribuidora, VCP (Votorantim Celulose e Papel) and Natura, the only non-OECD report to feature in both our 2004 and 2006 surveys.

During the debate, Natura chairman Guilherme Leal noted, “When we went public, investors paid a premium for our history of responsible management and consistent results.” Natura’s 2005 annual report is lushly illustrated for the first 40 or so pages. But this is the company’s main annual report, and given Natura’s intense focus on consumers — and on the 519,000 agents working in its marketing chain — the approach seems appropriate.

Natura’s thinking is strikingly different from that of most OECD companies, its strategy “anchored to the belief that a business can be a powerful engine for social transformation”.

A key discussion point for the Global Reporters team has been whether GRI-style reporting is appropriate for non-OECD countries. Our conclusion is that there are at least four main categories to consider: (1) coverage of non-OECD activities and issues in OECD-based company reports; (2) separate reporting by non-OECD units of OECD multinationals; (3) reporting by non-OECD-based multinationals; and (4), reporting by non-OECD companies.

Category 1 reporting is an area we must cover more extensively in future rounds of benchmarking, linking back into OECD companies’ materiality assessments. Our analysis is that currently, for many OECD companies, ‘northern’ voices still tend to drown out ‘southern’. In terms of category 2 reporting, our 50 Leaders and Other 50 groups includes ABN AMRO Real, Anglo Platinum, BAT South Africa and Nedbank. As far as category 3 reporting goes, we have Aracruz Celulose, MTR, Natura, Sasol and Tata Steel.

Growing numbers of such companies will want to break into international markets, and for them — including a growing number of Chinese and Indian companies — GRI-style reporting could make sense. For category 4 reporters, operating solely in non-OECD markets, the growth in integrated reporting in the South African market seen post the implementation of the Johannesburg Stock Exchange listing requirements is evidence of what might be possible. However in some regions, we expect that companies will move more cautiously into the sustainability reporting arena — a key reason for GRI’s development of different “levels of application”.

<table>
<thead>
<tr>
<th>Non-OECD reporting</th>
<th>Scores %</th>
<th>2006 Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>20</td>
<td>12</td>
</tr>
<tr>
<td>Average</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Maximum</td>
<td>80</td>
<td>44</td>
</tr>
<tr>
<td>Anglo Platinum</td>
<td></td>
<td></td>
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<tr>
<td>MTR</td>
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<tr>
<td>ABN AMRO Real</td>
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<tr>
<td>Natura</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nedbank Group</td>
<td></td>
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</tr>
</tbody>
</table>
Highlights from the other three non-OECD reporters in our 2006 50 Leaders group, all new entrants, are as follows:

— **Anglo Platinum** identifies 17 ‘headline risk areas’, the top three of which are foreign exchange fluctuations, commodity prices and liquidity. Anglo Platinum operates within the framework of the South African Mining Charter and has participated in the Johannesburg Stock Exchange SRI Index since its inception in 2004.

— **MTR** is in its fifth year of reporting against the GRI Guidelines. MTR is undertaking a number of major railway projects in mainland China, offering opportunities to inject sustainability thinking from an early stage, but the company’s CEO notes that “we face challenges”.

— **Nedbank** is listed on the Johannesburg Stock Exchange with a holding interest owned by the Old Mutual Group. It operates within the framework of the Equator Principles and reports that 3.1% of its net profit after tax was invested in community social investment projects. Among the issues discussed are political contributions (they don’t make them), money laundering and the work of the ‘trauma debriefers’ who helped 253 staff who had found themselves involved in 19 bank robberies (2004: 155 staff, 17 robberies).

### Non-OECD perspectives

Finally, as part of the Global Reporters 2006 program, SustainAbility (SA) spoke to Ricardo Pinto Nogueira (RPN), operations executive officer of the São Paulo Stock Exchange (BOVESPA), and to Mervyn E. King (MEK), who chaired South Africa’s King Committee on Corporate Governance and is new Chair of the GRI Board.

**SA** Which language do you prefer: non-financial or extra-financial reporting?

**RPN** Non-financial. But I consider all corporate non-financial reporting under the heading of sustainability reporting, including triple bottom line, environment and community reports. Interestingly, though, we see many companies identifying things like increased market share, innovation and new business opportunities, employee motivation and retention, the enhancement of reputation and brand, risk identification and mitigation, and improved shareholder value as key drivers to report.

**SA** What is needed to boost the uptake of non-financial reporting in your country?

**MEK** Business schools must teach the importance of corporate citizenship. And, as with financial reporting, we need professional verification, reinforcing transparency and so promoting stakeholder confidence in a company’s reputation. Such confidence enhances market valuation. The majority of companies on the Johannesburg Stock Exchange’s Socially Responsible Investment Index use the GRI as a reference point.

**RPN** Risk mitigation — including the identification of intangible liabilities relative to environmental and social issues.

**SA** If you were discussing these issues with financial analysts, what one thing would you stress?

**MEK** Today’s balance sheets and profit-and-loss accounts are backward looking. The exploration and analysis of non-financial aspects provides powerful clues to a company’s future growth and sustainability.

**RPN** Investor interest is key. The ISE (Índice de Sustentabilidade Empresarial, or Corporate Sustainability Index) was launched last year to provide asset managers and investors with a reliable and objective benchmark of the best corporate sustainability practices in Brazil.

The ISE rewards companies with good environmental, corporate governance and social performance and encourages other to follow suit.

**Non-OECD perspectives**

As a matter of logic, to direct a company today without reference to what it means to be a decent corporate citizen would be an act of corporate madness. Ultimately, though, companies need to target reports in a way that their stakeholders understand.

**SA** Why is it important to report non-financial data?

**MEK** Actually, I prefer holistic reporting, because the articulation of governance principles was initially focused on financial aspects. A company is made up of its people — and people, planet and prosperity are inexorably intertwined.

One interesting issue spotlighted is that of ‘fronting’, where black economic empowerment rules are subverted by ‘window dressing’, with the appointment of black employees who have no management or ownership function. Anglo, instead, actively supports black entrepreneurs.

**RPN** What is the role of reporting in corporate sustainability?

**SA** What is needed to boost the uptake of non-financial reporting in your country?

**MEK** Business schools must teach the importance of corporate citizenship. And, as with financial reporting, we need professional verification, reinforcing transparency and so promoting stakeholder confidence in a company’s reputation. Such confidence enhances market valuation. The majority of companies on the Johannesburg Stock Exchange’s Socially Responsible Investment Index use the GRI as a reference point.

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Towards value blends

Reporting has moved through a number of stages. In *Risk & Opportunity*, we characterised these as a 500-year history of financial value reporting evolving into multi-dimensional value reporting through the 1990s, with ‘blended value’ reporting likely from 2010 onwards. That’s our version of the big picture. Focusing on the development of sustainability reporting in particular, this has evolved from a defensive, compliance stage (driven by the US Toxics Release Inventory, for example) to a more engaged style of reporting on an increasingly global scale. This is the limit of much of today’s sustainability reporting. The next phase is likely to see a growing focus on the links between corporate responsibility and sustainability initiatives and the processes of value creation and company valuation.

One early indicator of companies seeking to create and tap new forms of value in relation to sustainable development would be a growing investment in — and commitment to — the development of knowledge and intellectual capacity in relevant areas.

Strikingly, even the 2006 group of 50 Leaders are very weak in disclosing their performance in this area. The average company score against this indicator is a disappointing 1.52 (out of 4), below the score for systematic treatment (score 2). One notable exception to this pattern is GSK, which scores a full 4.

But it is clear that analysts — even SRI analysts — are only rarely relying on corporate reports for data on value creation. Our panel of experts (page 9) see reporters still grappling with ESG risk disclosures. Typically, ESG risks disclosed in sustainability reports are ‘soft’ in nature. As some ‘harden’ and move into annual disclosures, the market starts to take note. We expect to see the same model emerging for disclosure on sustainability-related market opportunities.

We see early examples of this, as experimentation by leading companies and analysts evolves. Among interesting examples in the 2006 crop of best-practice reports are: BP and its reporting of plans for its alternative energies business; Philips and its assessment of the potential market and impact for lightbulb technologies; and, potentially, Wal-Mart (page 7).

Figure 29

<table>
<thead>
<tr>
<th>Value</th>
<th>Impact on sustainability</th>
<th>Business rating</th>
<th>Focus</th>
<th>Business strategy focus</th>
<th>Business management</th>
<th>Stakeholder engagement</th>
<th>Knowledge management</th>
<th>Transparency and disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Negative</td>
<td>Exposed</td>
<td>Process change</td>
<td>Protect business as usual</td>
<td>Capital expenditure for sustainability risk management incorporated in business planning processes</td>
<td>Stakeholders informed of progress</td>
<td>Limited processes to share experiences of management of sustainability issues</td>
<td>Limited – largely compliance orientation</td>
</tr>
<tr>
<td></td>
<td>Zero</td>
<td>Neutral</td>
<td>Product innovation</td>
<td>Sustainability at heart of core business processes</td>
<td>Business planning captures sustainability issues related to processes, products and investment choices</td>
<td>Stakeholders involved in issue identification and management</td>
<td>Shared experiences used to manage risks</td>
<td>Extensive – core part of risk management and opportunity development</td>
</tr>
<tr>
<td></td>
<td>Positive</td>
<td>Creating value</td>
<td>Market innovation</td>
<td>Sustainability vital to future value creation and business growth</td>
<td>Opportunities from sustainability agenda factored into business planning and review processes</td>
<td>Stakeholder partnerships to deliver solutions to sustainability issues</td>
<td>Shared experiences used to manage risks and identify opportunities</td>
<td>Strategic but selective – extensive use of transparency in building trust and support, key market innovations subject to commercial screen</td>
</tr>
</tbody>
</table>
And a stand-out example of the value-led approach is GE, whose report Solving Big Needs reviews first-year results for GE’s headline-grabbing ‘ecomagination’ campaign — notably revenues jumping from $6bn in 2004 to $11bn in 2006. There will be all sorts of risks associated with such strategies, but leading companies will supplement reporting on reputational risk management with an in-depth consideration of market opportunities and the potential for significant value creation.

A working assumption for future rounds of the Global Reporters benchmarking survey is that we will see a growing focus on the subject of innovation covered in reporting and the scope of reports will increase from left to right in Figure 29. This would take them from positions in which they are exposed to societal pressures and other external challenges, through the point where they reach some form of net-neutral positioning, to a growing positive contribution to sustainable development. We expect leading reporters will disclose performance across this spectrum, from risk management to value creation.

**Reporting opportunity**

As a litmus test, we looked at the titles of reports to get a sense for how many prioritise the value elements of their sustainability reporting. Interestingly, 7 out of 50 make an explicit reference to value or competition in their titles. But you can’t always judge a book by its cover, so how do the 50 Leaders do on reporting on opportunity?

In Figure 30 we plot scores gained on key risk criteria against those scored in opportunity areas — and spotlight a strong bias towards reporting on risk.

There were some notable exceptions, however. Our overall leader — BT — were the outstanding performer here, too, with a robust articulation of the pressures likely to impact the future shape of their business. These include Voice over Internet Protocol telephony and changes to the regulatory environment. The investments made by CFS on describing the value to the business from its sustainability activities pays real dividends, scoring better on its articulation of value than on discussion of risk. Interestingly, Lafarge — which also scores well in terms of opportunity reporting — is significantly weaker on risk management reporting. Finally, adidas stood out from the pack for its approach: very strong on risk management, but also weak on the opportunity side of the value equation.

In previous work, SustainAbility has distinguished three different versions of the sustainability agenda. Sustainability 1.0 focused on compliance, 2.0 on citizenship and 3.0, we believe, will focus on value creation — and, indirectly, on the creative destruction that accompanies major shifts in the structure and metabolics of our economies. The challenges bundled under the ‘sustainability’ label, not least among them climate change, promise — or threaten, depending on your viewpoint and sunk capital — to be transformative. And you see this sort of thinking coming through very strongly in reporting of some of our 50 Leaders.

Chris Tuppen of BT also distinguishes between three generations of business response to these great challenges (See Figure 4). In the first stage, he argues, the leaders are ‘Protectors’, who aim to keep out of trouble generally and the courts in particular, out of the media’s ‘Most Damaging’ listings, and out of the way of new forms of financial liability. Next come the ‘Builders’, who build on risk management to develop proactive initiatives, engaging employees and other stakeholders, and seeking ways of building reputation, relationships and reliable market intelligence. Third, there are the ‘Innovators’, who begin to build sustainable development into their customer propositions, linking a new set of values and value drivers to the core business model, helping drive revenues, profitability and long-term company valuations.

**Sustainability 3.0**

The evidence suggests that we are moving into a new phase of the debate, focused on creativity, innovation and scalable entrepreneurial solutions to sustainability challenges. It’s no accident that one of five proposed overarching themes for the World Economic Forum summit early in 2007 is ‘Scaling Up Sustainable Solutions’. The focus will be on “sustainable business models, greening supply chains, emerging fiscal, regulatory and voluntary measures, innovation, consumer behaviour, technological ‘fixes,’ new product/market development in opportunities, resource management (water, air, soil, biodiversity), sustainable urban development and the future of mobility”.

We are moving into a new phase of the debate, focused on creativity, innovation and scalable entrepreneurial solutions.
So what are the implications for corporate reporting? Let’s pick off three.

**Sustainability 3.0 reporting will take compliance and risk for granted — and innovation will revolve around the reporting of value creation and attempts to create blended value and value blends.** This trend is likely to reframe the debate — and reporting with it. Over time, successful reporting frameworks will come to link corporate, industry, value web, national and international levels of performance targets reporting. So, for example, the UN Millennium Development Goals (MDGs) may well come to be seen as market research lead indicators. And the trend is building. Over 20% of 2006’s 50 Leaders already report — to some degree — with reference to the MDGs.

As concern for sustainability risk management is overtaken by a growing interest in market opportunities and value creation, we expect to see a shift in corporate attention beyond current NGO relationships and public-private partnerships to a growing number of high-leverage joint ventures with social entrepreneurs.

Some of these innovators and entrepreneurs are signalling where the market opportunities of the future — and tomorrow’s value — will be found. Some are experimenting with business models which could well spread, over time, to the mainstream. And others are funding, or otherwise acting as incubators for, some of the most creative, innovative and entrepreneurial people and organisations of our time. In the 50 Leaders credit unions and co-operatives are already a strong force, an early indicator of the potential for social entrepreneurs to impact on the reporting agenda.

These trends are already discernible in the latest wave of corporate reports. True, only six out of the 50 Leaders specifically mention entrepreneurship in their sustainability reporting, but even this small step represents a giant leap from earlier years. So, for example, BP are an interesting example, giving details on how they are funding entrepreneurs to deliver innovative initiatives to provide access to energy in developing regions.

In Brazil, ABN AMRO Real talks about its focus on providing microfinance to enable small start-up businesses in the developing world, with microfinance beginning to provide a significant income stream for the company. And the Dutch chemical company DSM is also worthy of note for its discussion of its framework of Sustainable Entrepreneurship, aiming to create value in ways which are sustainable — though, as yet, DSM doesn’t give away much in the way of details.

The paradox of innovation, value creation and reporting is that as sustainable development priorities push into the mainstream and business and financial markets target new market opportunities with novel technologies and business models, so there will be growing pressure on companies to go into ‘stealth mode’ as they move towards market. As a result, it is at least conceivable that in future years we will see islands of pre-launch stealth in an increasingly transparent market landscape as a lead indicator of successful, competitive sustainability-focused business strategies.

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**Figure 30**

**Risk v Opportunity**

**Aggregate scores**

- GE
- Natura
- Unilever
- BT
- Lafarge
- Mecu
- Shell
- Anglo Platinum
- adidas

![Graph showing risk vs opportunity with points for various companies on a scatter plot](image-url)
Let’s polish the crystal ball. Some things are easy to predict. 2007, for example, will mark the twentieth anniversary of the Brundtland Commission report, *Our Common Future*. Since 1987, thinking on the roles and responsibilities of business in relation to sustainable development has evolved to an extraordinary degree.

Ten years ago, we identified 10 building trends in relation to corporate reporting. They were: (1) one-way, passive communication to multi-way active dialogue; (2) verification as an option to assurance as standard; (3) single company progress reporting to benchmarkability; (4) management systems to life-cycles, business models and strategy; (5) inputs and outputs to impacts and outcomes; (6) ad-hoc operating standards to global operating standards; (7) public relations to corporate governance; (8) voluntary reporting to mandatory reporting; (9) companies determining reporting boundaries to boundaries set through stakeholder dialogue; and (10) environmental reporting to triple bottom line reporting.

At the time, those seemed like fairly radical statements. But in 2006 it is clear that these predictions turned out to have been pretty accurate, even if some of these trends (for example 4, 5, 6, 8 and 9) still have a way to run. So where is the reporting agenda likely to take us next?

The release of GRI’s G3 Guidelines signals a growing degree of standardisation of reporting. It provides a helpful framework for corporate reporting, but there are signs that the reporting ecosystem may be starting to splinter. Some companies are looking to broader frameworks to provide the context for what they do, for example the UN Millennium Development Goals, while others are focusing on more specific guidance, like the Carbon Disclosure Project. And, while the revamped guidelines have been applauded by many it was clear at the October 2006 G3 launch that at least some leading companies are already looking beyond G3 to the G4 round, hoping for even more attention to be given to materiality. This is an early symptom of the tensions GRI will have to manage.

In terms of where the agenda needs to head next, we see the agenda following at least eight trajectories, sketched in Figure 31. Reporting will be only one component of continuous, customised corporate communication, drawing data from entire value chains, addressing increasingly ‘hard’ issues (e.g. carbon emissions) in quantitative terms, increasingly covering issues of consequence to the BRIC27 countries and mutating from encyclopaedic reports designed to win awards to prospectuses designed to attract investment and other forms of support. As key parts of the agenda become too important to be left to CSR departments, the spotlight will increasingly shifting to board level, to CEOs, CFOs and the financial markets.

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27 Brazil, Russia, India and China.
Section 12
Conclusions and Recommendations

It’s not hard to see breakthroughs after the event — the challenge is spotting them as they happen. For example, anyone watching the Wright Brothers struggling to get airborne could have been forgiven for dismissing the whole business. Similarly, there have been criticisms about the encyclopaedic nature of many reports, the self-serving nature of much of the commentary, the absence of regulatory requirements and market rewards for good practice, the inadequacies of current assurance mechanisms, the disinterest of financial analysts and other key stakeholders, and above all the frequent lack of comparability even between companies operating in the same sector.

But — despite the slowing of growth in the numbers of companies reporting — the field is poised to cross three significant market thresholds:

— It’s competitive
  Leading reporters continue to raise their disclosure, reporting and communication games, and new entrants are surging into the field.

— It’s material
  The materiality push is having a significant impact on the nature of best practice reporting, although the average length of reports continues to grow.

— It’s about value
  Where companies once focused mainly on their financial bottom line, the triple bottom line era opened out the focus to take in wider economic, social, environmental and governance impacts, and a growing numbers of reporters are refocusing on multi-dimensional value creation and the links to their current and future business strategies and business models.

So here are our conclusions — and recommendations for three groups: corporate responsibility practitioners, CEOs and their Boards, and investors.

Conclusions

1 Assessing corporate performance
The revision of our methodology was timely — we thank all the companies and other stakeholders who took part. In 2006 we saw company scores continuing to increase and breaking the 80% threshold for the first time.

The agenda today is too sophisticated to be captured effectively by generic frameworks. Very few issues lend themselves to generic reporting requirements across, for example, a pharmaceutical company, a bank and a mining company. This trend is recognised by leading reporting bodies like the Global Reporting Initiative, both through the focus on materiality in the new G3 Guidelines and their development of sector reporting.28

2 Leading reporters push the envelope
In 2006, we have seen companies hitting new heights in sustainability reporting. However, while this leadership group pushes ahead, three issues remain outstanding. First, the huge number of non-reporting companies worldwide, although the entry of companies like Wal-Mart (page 7) may well help here. Second, the continuing challenge of engaging capital markets in general, and financial analysts in particular. And, third, the fact that many sustainability reports fail to provide analysis in the sustainable development area with the information necessary to assess whether they are on a sustainable track, or not.

3 Materiality: try harder
Since 2002, when the Global Reporters team first broached materiality as an emerging topic, there has been very considerable progress in the orientation of reporting towards key company — and sectoral — issues. In our 2006 survey we see companies scoring well on issue identification (average score 2.56). But while progress has been made, there are many wrinkles that still need to be ironed out. Among them: How do you set the threshold level for materiality? How do you balance different stakeholder needs in materiality analyses? And how do you ensure that you haven’t missed weak signals of emerging material issues that today’s calculus ignores?

4 Think reporting and communication
One-size-fits-all reports fail to meet the needs of different stakeholders. That is a key reason why our Global Reporters 2006 Program is being broken out into a number of different documents and processes, to carry the headline messages out to specific target audiences. We are planning to produce further, tailored publications for reporting practitioners and investors, and on issues of influence and innovation.

5 Reporting on influence
One area where concern is growing but where current generations of reporting are still weak, albeit improving, is in relation to influence (page 23). 2006 scores on influence are among the lowest in the survey.
This is not simply about lobbying, though that is complex enough (for more on our work in this area see our website www.sustainability.com/insight/scalingup.asp), but about the various ways in which given companies influence the behaviour and actions of their key stakeholders, including customers and consumers.

6 Non-OECD reporting

There has been a significant improvement in the number and quality of reports coming from non-OECD regions and countries. The business case for reporting is strengthening for such companies as major OECD businesses start to work on making their value-chains more transparent and accountable. Meanwhile, even the biggest multinationals often still struggle with the issue of how to report on their developing world operations. One exception has been Unilever, with its report on the company’s economic impacts in Indonesia.

7 Tomorrow’s value

Robust sustainability risk management will be expected as the baseline for sound company performance. In parallel, companies will be expected to focus on market opportunities, innovation and scalable entrepreneurial solutions to the world’s great sustainability challenges (page 27). Successful companies will position themselves as solutions providers, as many of our 50 Leaders are already doing.

Recommendations

Finally, here are some recommendations for three key groups of people who will shape the future of this field.

Corporate responsibility practitioners

1 Develop and apply robust materiality processes to produce tighter, more focused disclosures on responsibility, accountability and sustainability performance.

2 Build links to your financial professionals. Involve them in crafting messages to your investors and shareholders which clearly articulate material issues in financial terms.

3 Remember, reporting is a necessary — not sufficient — condition of success. Design your reporting processes to build a platform from which wider disclosure, communication and engagement initiatives can operate.

CEOs and Boards

1 Assess whether your business strategy is aligned to the sustainability agenda. Are there value creation opportunities you are missing?

2 Benchmark your company’s performance against best practice — for example, take our Top 10 and top up to include the best three reporters in your sector. How does your disclosure, reporting and communication portfolio and performance compare?

3 Encourage your CR team to consider how their reporting and communication might evolve to embrace the opportunity and value creation agendas — and to adopt indicators and metrics that track performance, impact and outcomes.

4 Investigate the growing ‘influence’ agenda. Consider whether your company is vulnerable — or can make a positive contribution.

5 Use your communication opportunities to advocate greater responsibility, transparency and accountability across the memberships of all industry federations, associations and networks your company belongs to or is contemplating joining.

6 2007 marks the twentieth anniversary of the launch of the sustainable development agenda (via the Brundtland Report, Our Common Future). Review how your company performs against at least one major international framework — for example, the Millennium Development Goals or the Johannesburg Plan of Implementation (from the World Summit on Sustainable Development).

Investors

1 Take part in bodies working to improve understanding of the non- and extra-financial aspects of investment, among them ASRIA, the Enhanced Analytics Initiative, the UK Social Investment Forum and/or the UN Global Compact and UNEP Finance Initiative.

2 Probe companies on the business case. Challenge companies to articulate the long and short term value of their sustainability activities. Be clear on how their disclosures are being factored into valuation models.

3 Don’t be put off by jargon. Use whatever language works, but for the sake of argument let’s use ESG here. Press companies to demonstrate the value of their ESG risk management activities. Insist that material ESG risks and opportunities are included in annual reports. Help companies understand what should be considered material.

4 Start building assessment of ESG-focused value creation into your assessment and company rating methodologies. Actively downgrade stocks that fail to meet ESG benchmarks — and upgrade those demonstrating excellence.

Coda

Reporting has reached critical mass. Best practice is evolving at extraordinary speed, though still on too narrow a front in terms of the total number of companies involved. It’s time to rattle your supply chains. Push the envelope. Take a look at best practice in your sector — and others — and beg, borrow or steal. That’s how the Wright Brothers and others got airborne.
SustainAbility reporting services

SustainAbility provides a range of reporting services designed to assist clients through the entirety of their reporting process. Further information is available at www.sustainability.com or by contacting Matt Loose.

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Assurance
Advice on assurance strategy, including the facilitation of stakeholder led assurance processes or report review committees.

Communication strategy
Design broader/multi-year communication strategies which include targeted message and outreach plans for specific stakeholder groups.

Materiality: Issue identification and prioritisation
Build methodologies to identify and rank ‘material’ risks, as well as scoping appropriate reporting strategies for identified priorities.

Metrics and management processes
Review and develop metrics and management processes — for key material issues and/or for a report as a whole.

Pre-publication review
Provide timely and practical advice prior to publication.

Report benchmarking
Benchmark company report using our Global Reporters methodology.

Report outreach and review
Ensure report publication is supported by a strong outreach strategy — including stakeholder interviews or roundtables.

Reporting strategy and roadmap development
Develop reporting strategy — through benchmarking, internal interviews and stakeholder research.

Stakeholder engagement
Identify and prioritise stakeholders with an interest in company report and material issues. Convene dialogues to inform reporting strategy and facilitate feedback on expectations of material issues, corporate performance and reporting.

Engaging Stakeholders programme

The SustainAbility Engaging Stakeholders Programme provides a unique membership forum for business to develop and drive best practice in sustainability reporting and stakeholder engagement. Membership includes an annual benchmark of the company sustainability report, two annual workshops and regular contact with a dedicated SustainAbility liaison.

Best practice reporting database

Web-based database providing access to examples of best practice in sustainability reporting — searchable by industry, geography, issue and GRI indicator. To be launched in 2007 in collaboration with Flag.