

# Reporting matters

Improving the effectiveness of reporting  
WBCSD BASELINE REPORT 2013



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**This project is a joint collaboration  
between WBCSD and Radley Yeldar**

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# Welcome to our first report



This publication, the first such endeavor by the WBCSD, reflects extensive research conducted by us in partnership with Radley Yeldar, to understand the state of reporting across WBCSD members, and to identify best practice and areas of improvement so that reporting can become truly effective.

As a former CEO of a publicly-traded company, I am all too aware that a business needs accurate, reliable and timely information to monitor its activities, and ensure effective decision making and efficient management. Such processes are a significant investment in any organization.

Transparent disclosure is vital to keep investors and other stakeholders informed. However, despite best efforts to make reporting engaging, there is no guarantee that the information reported will be read and used by the intended stakeholder.

2013 has been a milestone year for sustainability and corporate reporting, with developments that include: the *Global Reporting Initiative (GRI) G4 Guidelines*; the long-awaited draft *Integrated Reporting Framework*; the emergence of the Sustainability Accounting Standards Board (SASB) in the US; and the increasing recognition of The Economics of Ecosystems

and Biodiversity (TEEB) for business coalition as the key multi-stakeholder platform for collaboration on natural capital accounting and valuation.

The voice of progressive businesses needs to be heard, which is why the WBCSD is now involved in the reporting agenda. We believe that reporting practices need to change to ensure that businesses are truly valued on what is important, that stakeholders have timely information, and that reports are read and used by investors and other stakeholders.

Sustainability reporting has come a long way since the first publications. Fifteen years ago, it might have been enough to tick the boxes on accident frequency, employee satisfaction and heart-warming stories of philanthropic activities. However, this approach no longer cuts it when it comes to showing why sustainability matters and what level of performance an organization has achieved.

This publication, which we will issue annually, aims to engage with businesses and the standard setters in progressing the quality of non-financial reporting, so that it progressively reflects a company's true performance and impact while providing information that meets the decision-making needs of key stakeholders.

Ultimately, the WBCSD aims to be the leading voice of business that will support companies in scaling up true value-adding business solutions and in creating the conditions where more sustainable companies will succeed and be recognized. Improving the effectiveness of non-financial reporting will be a key enabler to achieve this.

I hope you find it useful.

Peter Bakker  
President and CEO

# Why does reporting matter?

Information is the lifeblood of markets. Imperfect information leads to misallocation of resources and poor decision-making. That is why so much effort is still invested in evolving corporate reporting – more than a century after public company directors were first required to account to their shareholders for their financial stewardship.

Non-financial reporting is the latest major development making corporate disclosure more relevant and more useful. It helps investors make better judgments about a companies' performance and prospects while keeping other interested stakeholders informed and engaged.

Done well, it allows companies to report its true performance and impact rather than the partial picture contained in financial accounts. As such, it is key to changing the way investors value businesses and allocate financial capital, and therefore key to sustainable development.

This report demonstrates that information on companies' interactions with society and the environment has come a long way since initial attempts to quantify environmental performance and to communicate corporate social responsibility. Non-financial reporting is concerned with value, risk and opportunity – the central concerns of management and investors.

It has grown rapidly over the past 15 years because value is now perceived much more broadly than in the past. Financial value is still central and financial capital remains at the heart of business and markets. But it is clear that focusing solely on financial capital results in a very narrow picture of how companies relate to the world around them. Every business also relies on human, social,

manufactured and natural capital to provide the people, relationships and resources without which financial capital is impotent. Reporting on these capitals discloses how a business uses them to create value.

### Regulations are increasing globally

The volume of policy and regulation around organizational reporting is increasing globally. For example, several governments and stock exchanges have introduced new corporate governance and disclosure requirements. The 'report or explain' principle is spreading, with initiatives adoption by the São Paulo stock exchange in 2012 and incorporation in 2013 in the European Union proposal for accounting legislation to improve non-financial and diversity disclosures by large companies.

Companies listed on the Johannesburg stock exchange have been required to produce a third-party assured integrated report since 2010 and in the same year the US SEC issued interpretive guidance on climate change risk disclosure. In 2012, the Securities and Exchange Board of India mandated the top 100 listed companies to submit Business Responsibility Reports as part of their annual reports.



Imperfect information leads to misallocation of resources and poor decision-making.



More such measures can be expected as regulators focus on sustainability reporting as part of the transition to a green economy acknowledged at the Rio +20 conference.

### Voluntary initiatives on the rise


Understanding the importance of non-financial capital has also fuelled a rash of initiatives to improve the quality and relevance of reporting. In 2013 the International Integrated Reporting Council (IIRC) published a draft framework for integrating sustainability into annual company reports. IIRC brings together investors, companies, the accounting profession and others concerned with corporate reporting. It explicitly recognizes the multi-capital concept as one of its fundamental principles.

Also in 2013 the Global Reporting Initiative, which has been instrumental in developing sustainability reporting for more than a decade, issued the fourth generation (G4) of its Guidelines which help companies identify the topics they should communicate on.


In the US, the Sustainability Accounting Standards Board (SASB) published its Conceptual Framework. SASB is developing sector-specific guidance on including sustainability content in mandatory filings to the Securities and Exchange Commission (SEC). SASB standards will help companies address material issues in ways that are auditable and useful for investors and bridge the gap in US legislation about the materiality of ESG issues.

### A demand from investors

Investors are starting to back the drive for companies to recognize and respond to the risks and opportunities in sustainability. More than 1,000 asset owners and investment managers are members of the United Nations Principles for Responsible Investment (PRI). They speak for US\$35 trillion – serious money that is taking sustainability seriously as a business and investment issue.



Companies factoring sustainability issues into business strategies will ultimately outperform.



They do not see sustainability as a magic bullet to transform investment performance. But investors with a medium to long-term perspective know that companies face significant risks and opportunities from resource constraints, demographic changes, poverty, climate change and other major global developments.

PRI members believe that the companies factoring these issues into business strategies will ultimately outperform. They want to see evidence in corporate reporting that managements understand this and are responding appropriately.

Effective non-financial reporting will provide this evidence. It can also drive companies to identify value opportunities. The 100+ companies in the IIRC pilot program concluded that the trials had helped to provide a clearer view of their business model and the importance of the various forms of capital. Ultimately they said it led to better business decisions, which is the fundamental purpose.


Better decision-making is also the aim of WBCSD. We want companies to make decisions that advance sustainability as well as business success. And we want to see reporting that fully reflects such decisions so that investors can support

business strategies that create sustainable outcomes. Those investment flows will result in scaling up innovations that are essential to meet the challenges of the coming decades.

The pressing environmental and social issues the world is now seeing means that businesses need to act now to transform sustainability reporting so that it meets these needs. Engage with peers and the leading thinkers who are pushing this concept forward. Integrate sustainability into business thinking. And tell the world what you have done in ways that engage, inform, and stimulate action.

### The WBCSD response

The WBCSD will provide the collective business voice, supporting learning and doing as part of our Action2020 program to scale up sustainable business solutions. This report is an important step, providing the detailed analysis to guide sustainability reporting in the right direction and help our members to meet investors' needs.



Tell the world  
what you have  
done in ways that  
engage, inform, and  
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# What matters?

Effective reporting rests on the dynamic interplay of three things. Firstly, getting your thinking straight so that you focus on the right issues and have a clear plan. Secondly, taking action on the issues that matter and managing those issues. And thirdly, understanding your audience and their information needs. Together, these factors can help drive sustainable performance and underpin WBCSD's Action2020.





### Understanding your audiences

Thinking and doing is only part of the story. Different stakeholders demand different things from sustainability reports. So think about each stakeholder as an audience and what really matters to them.

### Reporting matters to...

*Investors* because they want to understand how companies are managing risk and creating growth opportunities from sustainability

*NGOs* because they want to scrutinize company activities and performance for further direct engagement

*Customers* because they need to understand how their suppliers are managing risk

*Employees* because they are increasingly concerned about finding employers who share their values and world view

*Suppliers* because it provides insight into the issues that their customer's prioritize

*Local communities* because they want to understand how the company is managing local impacts at a corporate level

*Regulators* because they need to enforce regulations to ensure compliance

*Consumers* who want information about the social and environmental impacts of the products they buy and the companies they buy from.



# 2

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## IN SUMMARY

IN THIS SECTION  
09 WHAT DID WE DO?  
10 WHAT DID WE FIND? IN NUMBERS



# What did we do?

*Reporting Matters 2013* is one of the largest independent surveys of corporate sustainability reporting covering more than 20 sectors and 30 countries. We hope it will benefit both WBCSD members as well as the wider corporate community. Below is a summary of how we conducted this review.



# What did we find? In numbers

By analyzing 175 sustainability reports and aggregating data across a range of measurable topics, we have identified some interesting trends that show the state of reporting within WBCSD's membership but also highlight future challenges and opportunities.

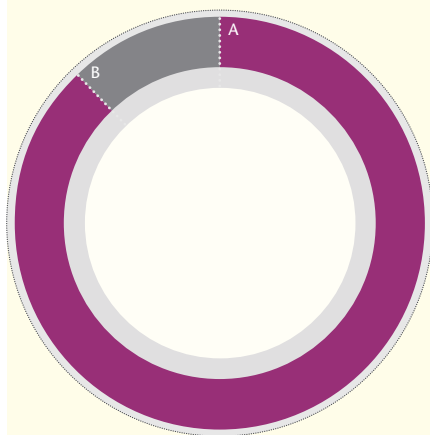
## What is material?

Defining materiality, or what is important to a business, is key to scaling up solutions. Our research shows however that only 21 WBCSD members (less than 12% of all reports reviewed) limit their reporting to those sustainability issues considered to be material to the business.

This helps to explain why the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) developed guidelines and frameworks in 2013 to help companies clarify what is material for reporting purposes.

We also found that there is only a weak correlation between report length and the sophistication of a company's overall materiality process. This suggests that even the most advanced reporters are not always using materiality to make their reporting more concise.

Materiality



A	Report wider than material issues	154
B	Report focused on material issues only	21

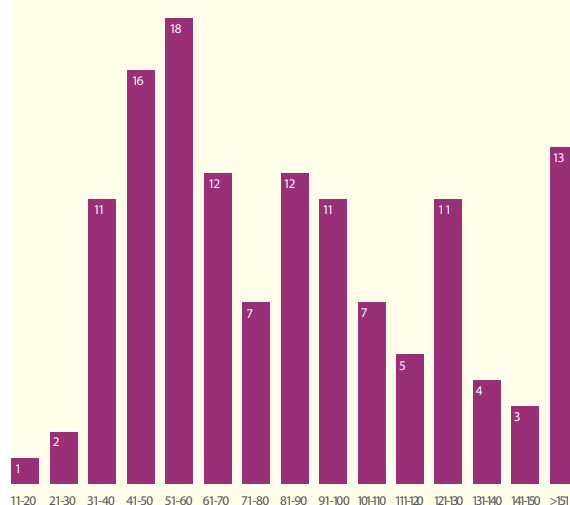
## How much is enough?

Stand-alone sustainability PDF reports vary significantly in length with the average being 98 pages. The shortest report we reviewed was 16 pages, while the longest was 780 pages. This wide range of report lengths is perhaps reflective of the differing functions and expectations of sustainability reporting at organizational level.

There is, however, no significant correlation between report length and sector, region, or maturity of reporting, suggesting that the increasing length of reports is a universal challenge faced by companies. Reporting against guidelines such as the GRI has no significant impact on the size of the report.

When combined with the annual report, the amount of sustainability content disclosed is generally less than a stand-alone report.

Number of pages



Number of pages

### How are the GRI guidelines being used?

Our research shows that almost 75% of the reports reviewed follow the GRI reporting guidelines, with 54 companies self-declaring to the highest level under GRI G3.1 (A+). The cement sector was the biggest user of the GRI guidelines with all reports (12 companies) using the guidelines.

We have found companies that use the GRI guidelines score slightly better in both our content and experience criteria than those who do not. We also found that there is no correlation between the use of the GRI guidelines and report length.

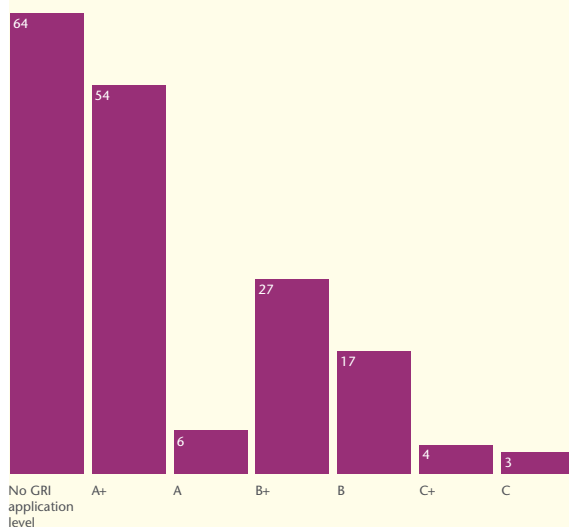
### What is the status of integrated reporting?

The majority of WBCSD members (80%) produce a stand-alone sustainability report – that is the fullest source of sustainability information is separate from any other report, such as an annual report.

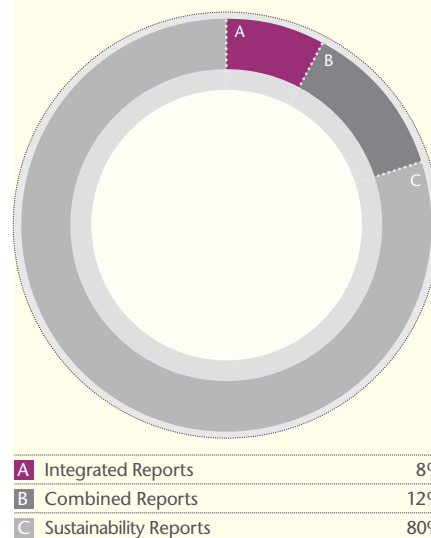
We found that 21 companies (12% of reports reviewed) disclose environment, social and governance matters in their annual report or produce a combined report and 14 companies (8%) issue a report they define as ‘integrated’ although this is not necessarily what it is called. A small number of companies produce a supplementary integrated or combined report in addition to a sustainability report.

Whether it’s called an annual or combined report, or defined as an integrated report, we see only one of these types of reports in the top 10 reporters with only five in the top quartile. Our analysis shows that self-declared integrated reports on average scored slightly higher than stand-alone sustainability reports against our content criteria.

GRI application levels



Report distribution



# What did we find?

## In numbers

### What are they calling it?

Since the early 1990s, the titles of sustainability reports have evolved to reflect the increasing sophistication of companies' approaches to non-financial reporting. In our research, the majority of reports are titled 'Sustainability' with 'Corporate Responsibility', CSR and 'Citizenship' making up the rest. Interestingly, CSR is used more by Asian-based businesses than other regions.

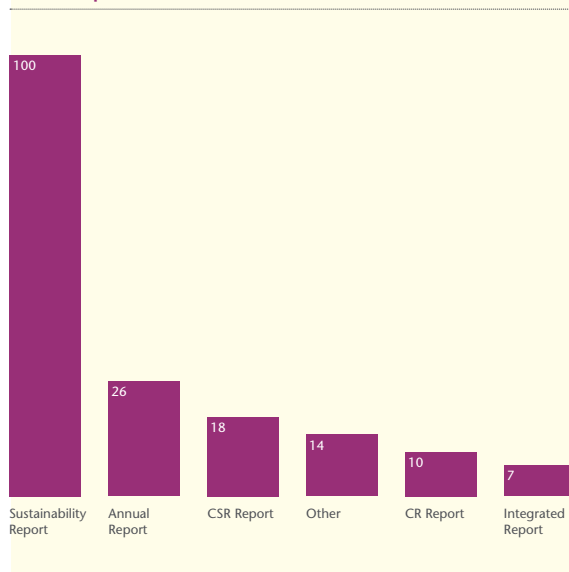
As we outlined above, a reasonably small number of companies are using 'Integrated Report' as their title. However, the majority of companies that are combining their financial and non-financial reporting do so under the term 'Annual Report'.

### How quickly are reports being published?

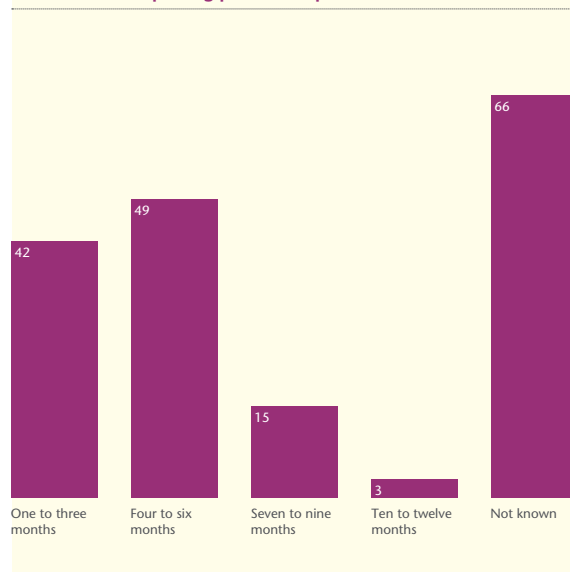
The vast majority of WBCSD members produce an annual sustainability report (or equivalent). However, nine WBCSD members have either not yet issued a report or not produced one since 2010. If the last published report was 2010 or before, we excluded it from our research.

We noted that 109 reports (almost 60% of all members) specify a reporting publication date. Based on this, the average time period between year-end and the publication date is approximately six months. We also found that annual reports and integrated reports tend to be issued more quickly on average than stand-alone reports within a one- to three-month period.

Title of report



Time between reporting period and publication

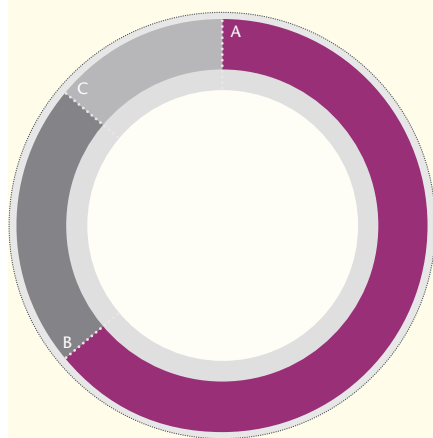


### Who's validating performance?

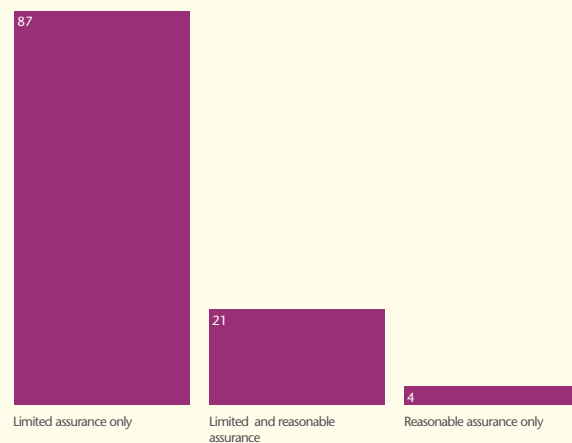
Our research found that 112 companies (more than 60% of total reports reviewed) have some form of assurance on their sustainability disclosures. The dominant form of external assurance is limited assurance with only four companies having reasonable assurance (recognized as the most extensive form of assurance) on their entire report. 21 companies use a combination of limited and reasonable assurance.

We found that 39 companies do not engage external assurance providers but use their internal audit function for assurance purposes. 24 companies do not have any assurance provision.

#### Assurance



<b>A</b> External assurance	112
<b>B</b> Internal audit assurance	39
<b>C</b> No assurance	24



# 3

## DETAILED FINDINGS

This section looks at key findings for each of the content and experience criteria. It recommends actions companies can implement, illustrated through examples from the reports reviewed.

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# Completeness

Completeness describes the report's scope and boundaries, and reporting of performance and targets for material issues within those scope and boundaries. It requires an understanding of the company's 'value chain', and in particular material impacts that go beyond the company's direct operations.

## Key findings

- > The most effective reporters cast a wider net in terms of scope and boundaries. They consider sustainability impacts outside of the company's direct operations that are material to the business and stakeholders. They also provide evidence to show they are engaging with suppliers and customers to address material risks and opportunities identified along the value chain.
- > While a majority of companies discuss at least some sustainability impacts beyond direct operations, many do not provide a comprehensive description of the value chain at all.
- > Furthermore, reporting scope and boundaries are more often than not loosely defined and say little about the actual boundaries of the report. For example, they rarely say whether joint ventures or subsidiaries are included or excluded.
- > In some cases, the title year does not match the actual reporting period, which may cause confusion for the reader.

## Key recommendations

- > Adopt a value chain approach to reflect a wider picture of material impacts. Often the biggest risks and opportunities occur outside of a company's direct control and require upstream and downstream actions in partnership with others to be effectively addressed.
- > Include a clear description or graphical representation of your company's value chain.
- > Use your value chain to inform target setting on your material impacts as well as to structure the whole report.
- > Ensure the reporting period is reflected accurately in the title of the report and aim to shorten timing between the reporting period and the publishing date. Also clearly state report scope and boundaries so that there is absolute clarity over what is in and out of scope.

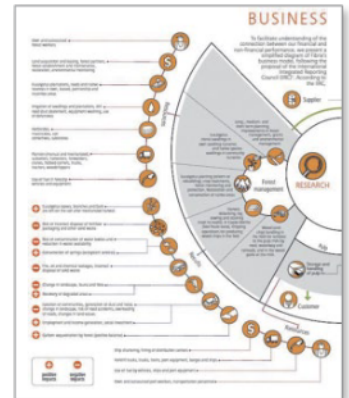
## In practice

### Fibra Celulose SA

#### Sustainability Report 2012

Fibra's report is an excellent example of the use of effective graphical representation of its value chain. This description indicates all the positive and negative sustainability impacts at each major step of the business model from forest management to production and sale.

This value-chain approach then guides the structure of the rest of the report. Impacts are followed up throughout the report demonstrating a strategic approach to corporate sustainability.



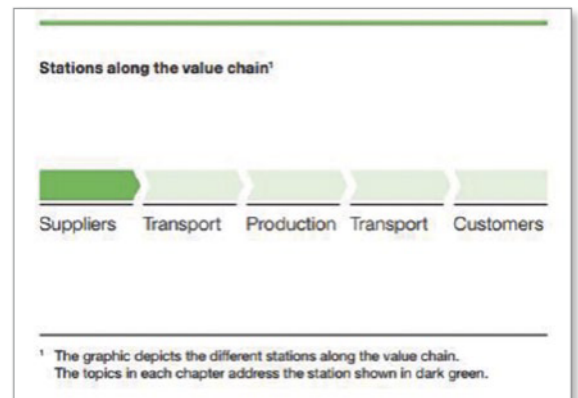
### BASF SE

#### BASF Report 2012

BASF's report presents a clear narrative of the company's value chain describing sustainability impacts at each stage of the production process.

Material issues are considered along the entire value chain and the report discusses activities that go beyond direct operations: supply, transport, production, storage, distribution and consumption. This results in a very complete overview of BASF's overall impact.

For example, BASF strives to quantify its impact along the value chain through its corporate carbon footprint. This analysis allows to evaluate the company's direct and indirect CO<sub>2</sub> emissions on the material topic of climate protection for each stage of the value chain.



### Henkel AG & Co

#### Sustainability Report 2012

The company utilizes its website to present a graphical representation of its value chain accompanied by a description of each material activity, while the report is used to explain in further detail specific processes, namely the supply chain and innovation processes, as well as illustrate how negative value-chain impacts are minimized and positive ones maximized.

The reporting scope and organizational boundary are clear and accessible. The report also provides some background about material business segments such as 'Laundry and Home Care', 'Beauty Care and Adhesive Technologies', as well as the 54 countries where Henkel has production sites.





# Materiality

A materiality process is used to identify and prioritize the most significant environmental, social and economic risks and opportunities – from the perspective of the company and its key stakeholders. It is an essential component of any report, and if used comprehensively, can help focus a company’s strategic approach to sustainability and reporting. It can also guide investment and resource allocation decisions.

## Key findings

- > The most effective reporters provide a clear description of the materiality process applied, including stakeholder involvement as well as outcomes from this process.
- > Furthermore, they present industry specific issues in a materiality matrix, which in turn describes their relative importance for the company and its key stakeholders.
- > Many reporters do not however explicitly identify material issues but instead provide only a generic description of important issues. Furthermore, regional interpretations and context on material issues, such as water scarcity, are rarely incorporated into the analyses.
- > In some instances, if reporters describe their material issues, they do not describe the process to define the most and least material issues, or show how they were identified in the first place.

## Key recommendations

- > Implement a transparent, inclusive and robust materiality process involving your company’s key external and internal stakeholders to gain insight on the relative importance of sustainability risks and opportunities facing the company.
- > Clearly define and describe the materiality process and present the outcomes of the materiality analysis. A matrix is an effective way to do this, provided it has enough detail to illustrate the hierarchy of prioritized issues, including those identified as not material.
- > Structure the report around the outcomes of the materiality process, or at least clearly direct readers to where they can find more detail on your material issues. This will help with the drafting of the report as well as improve the reader’s experience.
- > Where possible, consider external assurance for both the process and the outcomes of the materiality analysis to reinforce the report’s credibility.

## In practice

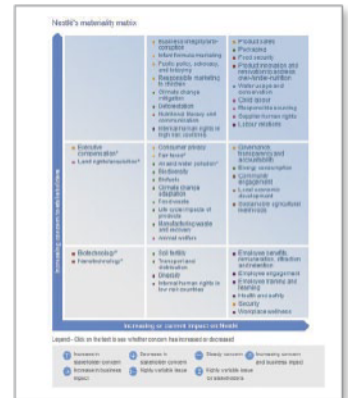
### Nestlé SA

#### Creating Shared Value and meeting our commitments 2012

The report presents an interactive matrix that allows the reader to choose any material issue of interest and then be directed to a more detailed description of the selected issues.

This interactive matrix includes color coding, which is used throughout the report, to visually categorize the different material issues by themes.

The materiality matrix displays changes in relevance of impacts of material issues over time – a feature that is unique and insightful. The report also includes a detailed description of how the issues have been prioritized as well as the new issues added in comparison to prior years.



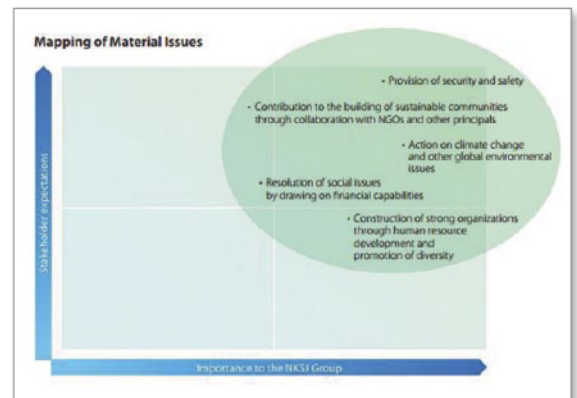
### Sompo Japan Insurance Inc.

#### Corporate Responsibility Communication 2012

Sompo's report includes a comprehensive matrix that displays all the issues that are material to the company. Sompo also explains how the mapping of issues was conducted through stakeholder engagement and the core themes of ISO 26000.

Following further engagement with experts and critical evaluation, the matrix is then narrowed down to five color-coded key issues.

The report is entirely structured around the outcomes of the matrix.



### Public Power Corporation S.A.

#### Corporate Social Responsibility 2011

PPC presents a comprehensive table outlining the magnitude of risks for a series of key issues identified by the company and prioritized in light of the impact these issues could have on both the company and stakeholders.

Material issues are then illustrated in a matrix, accounting for likelihood and degree of impact according to five different levels of importance.

Moreover, stakeholder involvement in the materiality process is demonstrated by a section explaining how each stakeholder group was consulted on key issues and the way in which PPC responded.





# Strategy & drivers

A sustainability strategy is a clearly-articulated approach or plan to address material financial, environmental, social and governance risks and opportunities. It should link to a vision, a mission and provide an explanation of how the strategy will be delivered, including milestones and targets.

## Key findings

- > The most effective reporters disclose a business strategy that links to positive sustainability outcomes, such as the management or avoidance of sustainability risks or the development of opportunities through innovation. The strategy is supported by a detailed implementation plan.
- > Additionally, the most effective reporters define a specific business case for sustainability, referencing drivers such as cost savings, reputational benefits, and employee retention, as well as wider societal needs.
- > Many reporters however do not establish a clear link between sustainability and their core business nor do they define a company-specific business case.
- > Many reports do not include a sustainability vision and consequently do not communicate a clear sense of direction or purpose.

## Key recommendations

- > Identify the key sustainability outcomes your business wants to achieve and link these to your core business strategy. Describe how your business strategy and business model have been adapted to support these outcomes.
- > Avoid limiting your sustainability outcomes to downside risk management but aim to show how the strategy drives commercial value as well as sustainable outcomes, for example through innovation.
- > Articulate a clear business case that is specific to your business and external environment and reference key drivers such as cost savings, alongside expected benefits.
- > Show how your strategy addresses wider societal issues such as resource constraints and environmental degradation, income inequality and human health and wellbeing issues.
- > Talk about what kind of business you want to be or become. This will help readers understand your purpose beyond generating financial value.

## In practice

### Unilever plc

#### Progress Report 2012

The report defines an embedded strategy entitled 'The Sustainable Living Plan', which emphasizes the long-term focus of Unilever's strategy and an overarching systemic journey to sustainability outcomes.

The strategy is fully integrated into the business model focused on three goals to be achieved by 2020. These are supported by seven commitments underpinned by well-defined targets.

Unilever's strategic approach considers both sustainability risks and opportunities.



### ACCIONA SA

#### Sustainability Report 2012

The report shows that the company has devised a medium-term (up to 2015) 'Sustainability Master Plan' (SMP 2015) consisting of nine areas around which the report is structured.

The SMP 2015 is directly linked to ACCIONA's vision to meet the challenge of achieving sustainable development and ACCIONA's mission to be a leader in sustainability.

ACCIONA's report shows how strategic sustainability priorities are established in line with the priorities of the business resulting in a truly integrated approach.



### Svenska Cellulosa AB, SCA

#### Sustainability Report 2012

SCA's report shows how the company has taken a holistic approach to strategy by linking sustainability to financial performance and value creation for people and nature.

SCA clearly articulates its business case for sustainability, which drives cost-efficiency and increases productivity. This is consistently shown throughout the report with performance metrics and targets.

Trends and prospects influence the development of SCA's sustainability strategy and are the drivers of short and long-term sustainable growth.





# Governance & accountability

Governance and accountability focuses on how a company defines its management responsibility and oversight for sustainability activities and performance. Sustainability governance should be an integral part of the overall corporate governance structure as it demonstrates that the company's leadership is taking sustainability seriously.

## Key findings

- > The most effective reporters demonstrate how the company has integrated sustainability governance into its overall corporate governance structure, such as through board-level committees. Furthermore, evidence of this structure is provided beyond the corporate function and typically includes regional and local governance arrangements.
- > Additionally, the most effective reporters include specific details on the governance activities of the board committees, including key decisions, actions and outcomes from meetings, and sustainability responsibilities of committee members.
- > However, some reports do not describe the company's leadership commitment to sustainability beyond the chief executive's statement.
- > Few reporters provide details on how the board or senior executives are remunerated or incentivized following achievement of sustainability goals or targets.
- > Most companies opt for internal assurance through their internal audit function. If external assurance is obtained, it is more likely to be limited than reasonable.

## Key recommendations

- > Describe how the governance of sustainability is structured and strive to have this embedded in the overall governance of the organization. Ensure there is a clear description of any board committee that has sustainability oversight. Refer to the frequency of sustainability committee meetings, topics discussed and key outcomes.
- > Explain your local sustainability governance arrangements and how they feed into the overall governance structure.
- > Consider introducing other forms of external accountability such as stakeholder panels to challenge and provide external scrutiny on your strategy, performance and reporting.
- > Consider the effectiveness of your assurance processes and describe them fully in your report. Effective reporting has a combined approach to assurance with both internal and external assurance providers working in collaboration.
- > If external assurance is not used explain why. If it is, then define the role and scope of the external assurance provider, its independence, engagement boundaries and the key findings of their report.



## In practice

### Royal DSM N.V.

#### Integrated Annual Report 2012

DSM's annual report provides a detailed description of how sustainability governance is organized at the corporate level and supported by the corporate sustainability department under the lead of the CEO.

It also describes how sustainability is addressed at the regional level through internal sustainability networks in a number of emerging economies.

Moreover, the company has established an external sustainability advisory board that consists of sustainability experts or thought leaders and advises DSM on complex sustainability issues.

The report provides transparent information on how board-level incentives are linked to sustainability. Sustainability is an integrated part of the remuneration of DSM managing board.



### Vedanta Resources plc

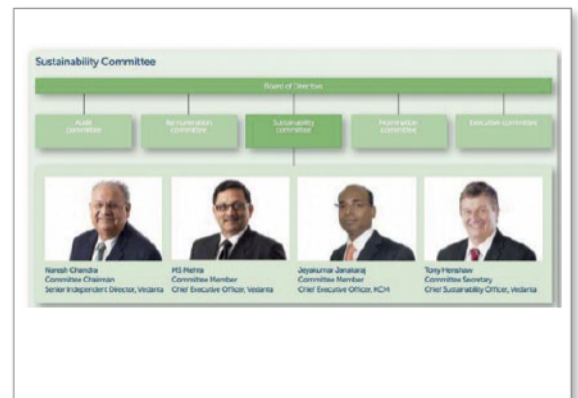
#### Sustainable Development Report 2011/12

The company's report includes an easy-to-follow graphic illustration of the governance committee's structure together with its members and their responsibilities.

The report outlines the various activities performed by the company's governance committee with responsibility for sustainability as well as their newly approved sustainability policies related to the business activities of Vedanta.

Additional information on remuneration and incentives for board members and senior executives is clearly referenced to the annual report.

The company has also appointed a chief sustainability officer who regularly updates the governance committee on best practices and industry-specific benchmarks.



### Ford Motor Company

#### Sustainability 2012/13

The governance disclosures demonstrate the company's dedication to sustainability beyond its sustainability team. The narrative describes how Ford is striving to integrate sustainability philosophy across the entire company from the core of the company to all its business operations.

Ford formed its 'Sustainable Development Committee' in 2008, reflecting the company's commitment to address sustainability responsibilities, risks and challenges facing the company.

The report also describes remuneration of all employees, not just of board members, and how compensation is based on sustainability achievements.





# Management approach

Management approach describes the systems, controls and processes in place across the organization to manage and monitor material issues. It can include the deployment of frameworks, guidelines, tools, internationally-recognized management systems and certifications, as well as stakeholder engagement activities focused on facilitating implementation by employees, suppliers and customers.

## Key findings

- > The most effective reporters describe in sufficient detail the systems and processes put in place to manage material issues and how engagement with employees, suppliers and customers supports implementation.
- > While some companies explain their management approach, there is often limited information provided on the tools, systems, processes and frameworks that guide strategy implementation.
- > The same applies to information on systems, processes and controls over reporting and disclosure. Very few companies describe their internal reporting and data collection processes and frequency.
- > Furthermore, some companies do not provide enough information on engagement with employees, suppliers and customers, meaning there is limited insight on how they are influencing material impacts beyond their direct operations.

## Key recommendations

- > Describe the tools, systems, controls, processes and frameworks that guide implementation of your strategy. An exhaustive list is not necessary, but you should aim to provide a fair and balanced overview of your management approach, including areas of improvement and plans to improve.
- > Show how you are engaging with your employees, suppliers and customers on a systematic basis to build capacity and encourage bottom-up action, innovation, and increased awareness.
- > Show how sustainability is embedded in corporate and operational functions beyond the sustainability team – and how sustainability is part of everybody's responsibility.
- > Provide information on your data collection processes and internal controls. In addition, consider assurance for key performance indicators that measure progress against your material issues, and the underlying data processes that generate these.

## In practice

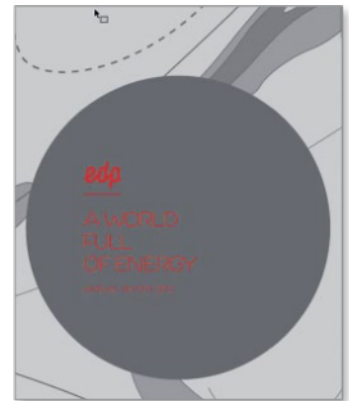
### Energias de Portugal S.A. (EDP)

#### Annual Report 2012

In line with the outcomes of the materiality analysis, the report describes in detail the management systems in place. These include certified managerial systems (e.g. ISO 14001), internally developed systems (e.g. EDP's occupational health and safety management system based on the OHSAS 18001 standard) and other externally-developed frameworks (e.g. the European Eco-Management and Audit Scheme and the Greenhouse Gas Protocol).

EDP demonstrates the implementation of a good management approach through the involvement of internal and external stakeholders. For example, customers' awareness is raised through the promotion of new energy efficient technologies and employees are encouraged to get involved in the innovation process by directly participating in the assessment of new ideas.

Reasonable and limited external assurances support the robustness of data collection processes in place.



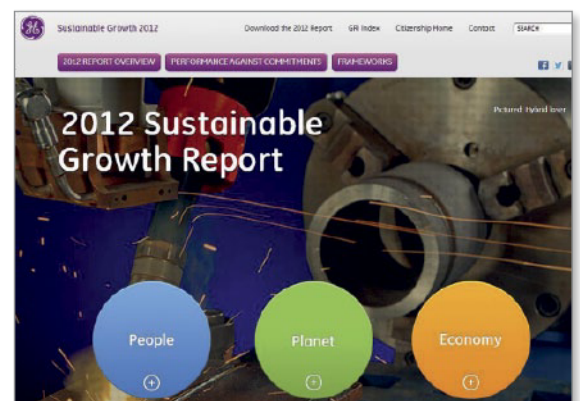
### General Electric Company (GE)

#### 2012 Sustainable Growth Report

In addition to using certified management systems, the reporter has developed a variety of tools and resources for its research and design specialists and takes targeted Life Cycle Management approaches to this end.

GE raises awareness by adopting a collaborative working method with its employees, suppliers and consumers to identify strategies for end-of-life product reclaim and reuse.

GE's report describes in detail the processes in place for data inventory, which includes guidance documents for the company's operations and extensive training on inventory processes (e.g. water, GHG emissions).



### Siemens AG

#### Sustainability Report 2012

The reporter adopts a holistic approach to environmental protection that goes beyond manufacturing to address all phases of the product life cycle, including procurement, sales and services, use, disposal and recycling. This approach is being implemented through an internal environmental standard that defines requirements for each of these steps.

Siemens engages with its suppliers, customers and employees in the implementation of its systems and processes: the company facilitates knowledge transfers with suppliers through capacity building; it raises customers' awareness by making information available as to how to deal with the products at the end of their use; and it also explores avenues with employees to encourage innovation by using an Internet-based idea competition and social media platform.





# Evidence of activities

Evidence of activities involves reporting on sustainability activities such as strategic programs and initiatives that occur during the reporting year, or progress of existing sustainability activities. It helps link management approaches to actions and performance and can substantiate statements and claims.

## Key findings

- > The most effective reporters focus on strategic sustainability activities that address material issues during the reporting year and demonstrate the organization's management approach in action.
- > While some reports include relevant and compelling case studies that bring to life sustainability activities and illustrate actions and outcomes, many do not use case studies to their full potential and rely on anecdotal and non-strategic evidence of activities.
- > Some reporters however rely heavily on evidence of activities that fall outside of the reporting period, or that provide limited information on new or existing initiatives and their progress.

## Key recommendations

- > Include more specific narrative on strategic sustainability activities that address material issues during the reporting year.
- > Illustrate sustainability activities through relevant and compelling case studies focusing on material issues, linked to a wider strategic program or management action and focused on outcomes.
- > Provide appropriate background on the development of strategic programs and initiatives over time but focus on achievements and progress during the reporting year.
- > Show how disclosed management processes and tools support the implementation of strategic programs and initiatives.

## In practice

### Lafarge SA

#### Sustainability Report 2012

The company uses concise case studies that are color-coded and prominently displayed in boxes. Case studies are differentiated from the main narrative and anecdotes.

Lafarge uses its website to post additional case studies classified according to the three pillars of sustainable development – environment, economics and society – and following a consistent structure: objectives, summary, results, prospects, total cost and people concerned. These are also available in audio format.

conservation. Each year our sites implement programs to address community needs in cooperation with local NGOs. In 2012 over 1,000 community programs were reported by Lafarge sites.

Examples include setting up an educational campaign for road safety in Egypt, supporting community educational skills in India, sharing in-house leadership expertise in the United Kingdom, support to entrepreneurship in Romania and Morocco, alongside long-running initiatives, such as public health programs in UAE, Ecuador and Zambia (where mobile medical units tour neighboring communities). Examples from all around the world are available on [www.lafarge.com](http://www.lafarge.com).

**VOLUNTEER WORKING TO BOOST LEVEL OF EMPLOYEE ENGAGEMENT OUTSIDE OUR OPERATIONS**

Volunteer working was identified as an opportunity for employees to contribute to urban development and communities. In 2012 over 15,000 volunteering hours were recorded, with employees involved spending, on average, just over a day volunteering on community projects. Examples include a river clean-up in the USA and a project to improve the quality of life of disadvantaged citizens in Serbia. For 2013 the challenge will be to plan and implement volunteering programs in countries with various socio-economic and cultural contexts. Our operations worldwide will be able to capitalize on ongoing initiatives such as the one implemented by Lafarge Cameroon since 2009. Lafarge volunteers are given the opportunity to work with a local entrepreneur to build wells and train villagers on the maintenance of water cleanliness to avoid the spread of diseases such as cholera. Volunteers have also joined WWF's efforts for reforestation. At the Rigal plant in North Cameroon, over 900 working hours have been dedicated to reforesting and 1,500 trees have been planted. ➔

**CASE STUDY**

**MEASURING SOCIO-ECONOMIC FOOTPRINT**

In 2011 Lafarge and C&AE France developed a tool to measure the socio-economic footprint of operational sites. Through collection and analysis of qualitative and quantitative information, in 2012 the partnership focused on piloting the use of the tool. As a result, numerous pilot sites were visited to identify plant (Danava) and (Chavignol) where workbooks, data collection and interviews with stakeholders were undertaken by teams consisting of Lafarge personnel and representatives from C&AE. These sites aimed at improving the functionality of the hospital tool and providing the site teams with feedback and personal engagement activities. This is particularly important in the context of the Sustainability Ambition, which target the use of the tool by 75% of sites from 2015.

From 2013, the use of the tool will allow the site to communicate their use to stakeholders, in terms of direct, indirect and induced employment and the level of economic activity generated. Sites have emerged, including identifying partnerships with local companies to further local issues such as access to water.

### EDF Group

#### Activity and Sustainable Development 2012

EDF's report includes narrative describing the many sustainability activities and initiatives undertaken by the company during the reporting period, often in a historical context.

Material issues are approached from a case-study perspective with a strong focus on outcomes that advance sustainable development within the company and beyond.

EDF's case studies and various sustainability activities are made visual through compelling photography.



### Anglo American plc

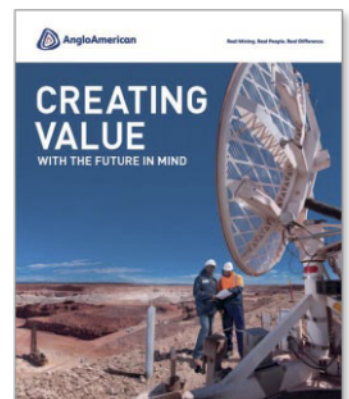
#### Sustainable Development Report 2012

The report uses case studies to provide a detailed explanation of specific management systems or programs and their benefits. Case studies include stakeholders' quotes to illustrate the collaborative approach of their report.

Each case study is relevant because it always deals with a material issue. As a result, case studies are consistently used in every section of the report.

For increased reader awareness, Anglo American provides evidence of particular activities addressing the complex political regimes and employment situations in countries such as Brazil and South Africa.

The report gives further insight into the company's overall impact on the environment and communities, by referencing additional case studies online.





# Performance

Measuring and monitoring performance is critical to demonstrating progress. Specific and measurable key performance indicators (KPIs) should be reported for all material issues, and distinguished from other indicators. KPIs help to increase comparability with competitors over time, and provide accountability so that performance trends can be monitored and corrective actions taken when required.

## Key findings

- > The most effective reporters have KPIs in place for all material issues, clearly distinguishing them from other non-material indicators. For each KPI where performance information is reported, data is usually presented over at least a two-year time scale and a description of the performance trend is given for context.
- > Some reporters do not provide KPIs for all material issues, which can either be explained by the absence of a materiality process, or the large quantity of material issues identified which makes it difficult to provide a comprehensive set of KPIs.
- > Some companies disclose data at a corporate level only, which can hide significant regional and segmental variations. This is particularly important in some cases to determine real progress.
- > Most companies focus on KPIs that measure absolutes, for example the quantity of resources consumed or the number of people trained. However, few measure the outcomes of management interventions or the effectiveness of management processes. Even fewer still show an understanding of context in the reporting of KPIs.

## Key recommendations

- > Ensure you develop at least one KPI per material issue and track progress over time to make performance trends visible – at least every two years but ideally more frequently. If a sector has developed a standard set of KPIs, these should be followed to allow for performance comparability.
- > The accompanying narrative should be specific and balanced, especially where performance has been below your expectations.
- > Clearly distinguish material KPIs from your other indicators and consider ways to make these more outcome focused. Align KPIs as much as possible with your financial statements by using the same material reporting segments, which can be geographical and/or product specific.
- > Whenever possible contextualize material KPIs by relating them to ecological limits, planetary boundaries, social concerns or geographies. This may help to improve outcome measurement.

## In practice

### SABMiller plc

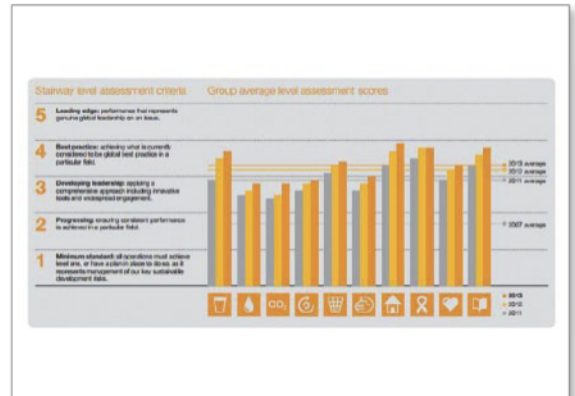
#### Sustainable Development Report 2012

The report includes KPIs for all material issues that are presented as 10 sustainable development priorities.

The disclosure includes five performance thresholds: minimum standard, progressing, developing leadership, best practice and leading edge.

SABMiller has developed an effective Sustainability Assessment Matrix tool to monitor performance against each of the priorities in all the countries of operations.

Compelling interactive tools are available on the company's website that can provide further detail to interested parties.



### CEMEX

#### 2012 Sustainable Development Report

CEMEX's report employs at least one KPI to measure and monitor every material issue the company has identified. It clearly differentiates material KPIs from other indicators and displays the distinction prominently in a performance table at the beginning of the report.

Performance over time and progress is displayed in the table while performance trends are thoroughly discussed throughout the report.

CEMEX's report is supplemented by a downloadable document which contains a detailed results list of the company's KPIs.

	2010	2011	2012	Target 2015	Progress	Independent Assurance
<b>Level 1: Sustainable Development</b>						
Production covered with ISO14001 CO <sub>2</sub> footprint tool (N)	00	87	100	100	✓	✓
Coment	100	100	100	100	✓	✓
Aggregates	50	83	100	100	✓	✓
Ready mix	41	83	100	100	✓	✓
<b>Reduce our carbon intensity</b>						
Specific net CO <sub>2</sub> emissions (kg CO <sub>2</sub> /metric ton of cementitious product)	029	012	012	004	▲	▲
Reduction in CO <sub>2</sub> emissions per ton of cementitious product from 1990 baseline (N)	20.5	23.7	23.7	25	▲	▲
Alternative fuel rate (N)	20.3	24.7	27.1	35	▲	▲
<b>Environmental and community performance</b>						
Compliance with environmental monitoring of major emissions:						
Dioxin, HAPs and PCBs (N)	74	80	80	100	▲	▲
Specific dust emissions (kg/m <sup>3</sup> clinker) (N)	89	101	76	120	▲	▲
Specific NOx emissions (kg/m <sup>3</sup> clinker) (N)	1,134	1,054	1,026	1,000	▲	▲
Specific SOx emissions (kg/m <sup>3</sup> clinker) (N)	334	316	297	320	▲	▲
Active sites with open rehabilitation plan (N)	105	101	91	100	▲	▲
Active sites with high biodiversity value where biodiversity action plans are actively implemented (N)	38	38	41	100	▲	▲
Operations with an Environmental Management System implemented (N)	76	88	89	100	▲	▲
<b>Health and Safety</b>						
Losttime injury frequency rate: employees (per million hours worked)	2.8	2.2	2.0	2.0	▲	▲
Compliance with OHS Working Safety Recommended Practices (N)	64	79	85	100	▲	▲
Compliance with OHS Contractor Safety Recommended Practices (N)	63	82	80	100	▲	▲
Operations with a Health and Safety Management System implemented (N)	98	98	100	100	▲	▲

▲ Fully achieved target ▲ On track to achieve target ▲ Extra effort required to achieve target

▲ This category is not audited

▲ During 2012 we worked on creating a Health and Safety Management System that integrates our services safety management system and our health management system. Currently, we are in the implementation phase.

### Schneider Electric SA

#### 2012/2013 Strategy and Sustainability highlights

Schneider strives to achieve its 'Planet, Profit, People' objectives and has identified relevant KPIs for each pillar.

The company created a 'Society and Planet Barometer' in 2005 as a tool to measure its sustainability performance. The scorecard also allows for transparent communication of the company's progress to its many stakeholders.

The internally developed scorecard framework includes results for all material KPIs, as well as an aggregated trend overall. These are released on a quarterly basis and are published in a specialized scorecard newsletter.





# Trends & prospects

Trends and prospects are actual and potential changes to a company's operating environment that could impact its strategy and performance. They can include societal, environmental, regulatory and commercial risks and opportunities. Anticipating and responding to trends and prospects can drive resilience and competitiveness and may help set the direction for a long-term sustainability vision.

## Key findings

- > The most effective reporters discuss relevant trends and prospects, and demonstrate an understanding of how these might impact their business model and strategy, for example by creating new risks or market opportunities.
- > Some reporters however do not provide an in-depth and forward-looking analysis of trends and prospects and instead focus their forward-looking narrative exclusively on targets.
- > Where trends and prospects are included, the narrative is often generic and does not provide sufficient strategic insight.

## Key recommendations

- > Carry out a wide and thorough analysis of trends and prospects and link results to your enterprise risk management processes.
- > In the report, discuss your corporate response to these trends and prospects, including how these vary by region and operating division.
- > Describe the trends and prospects in the context of your commercial strategy by explaining how they could create risk or opportunity, and how the company plans to address these.
- > Use trend and prospect analysis to inform your company's long-term vision for integrating sustainability into business models and strategies.



## In practice

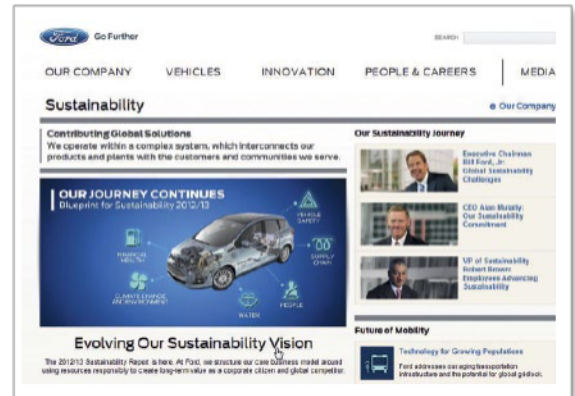
### Ford Motor Company

#### Blueprint for Sustainability 2012/13

Ford's report acknowledges diverse challenges affecting its business operations and regards sustainability as an opportunity for future growth.

It discusses trends and prospects in many different respects in both developed and emerging economies. For example, the company is creating new innovative mobility solutions to meet the growing demand in emerging economies.

The report includes a thorough discussion on regulations in which the company participates through legislation development.



### Svenska Cellulosa AB SCA

#### Sustainability Report 2012

The company's report dedicates two pages to global trends and recognizes the opportunities to be seized from an aging population, a higher standard of living, water shortage, and changed consumer behaviors.

The report takes into account market trends, such as forest product certified by the Forest Stewardship Council (FSC), when introducing new or updated products.

SCA actively participates in EU Climate Policy through the EU Emission Trading Scheme. As a result of the impacts on emission allocations, the report explains how the promotion of renewable energy and production could represent a competitive advantage in the future.



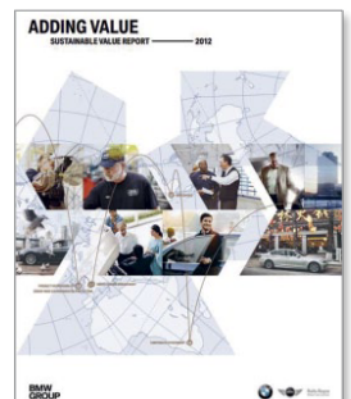
### BMW Group

#### Sustainable Value Report 2012

BMW offers an overview of the current risks and the volatility of the markets worldwide. It describes global trends (e.g. urbanization and climate change) and assesses their impact on the company.

The report subsequently discusses market trends such as customer mobility requirements.

BMW refines its strategy to deal with uncertainties related to market places and the constantly changing regulations that directly affect it.





# Targets & commitments

Targets and commitments are specific and measurable performance goals or management actions that a company aims to achieve over a given period, ideally for each material issue. They are critical to delivering a company's strategy and enable annual reporting on progress. They are increasingly combined with more aspirational, long-term objectives and stretch targets.

## Key findings

- > The most effective reporters set ambitious overarching aspirational objectives for each material issue, which are supported by more specific and measurable targets.
- > Effective reports show a clear linkage between performance targets and KPIs, and outline specific management actions to support the delivery of these.
- > However, some companies' targets are not specific enough and have a short-term focus, typically one to two years.
- > Some companies do not report on progress against their targets and there is often limited discussion on how targets will be delivered.

## Key recommendations

- > Ensure every material issue has a measurable target, ideally addressing those direct impacts within the operations of the business, as well as the impacts of customers and suppliers in the wider value chain where material.
- > Set medium and long-term along with short-term targets so that the reader can see a clear path towards improved performance. For the most material issues, consider setting stretch targets, which require a response beyond business-as-usual. These targets can help to invigorate and mobilize employees to go the extra mile thus helping the organization to scale up solutions.
- > Report the plans that have been developed to achieve targets, including resource requirements and organizational changes needed. This will improve transparency, internal accountability and authority.
- > Report on progress and the level of achievement against past targets, regardless of poor performance. This will help deliver a more balanced report.

## In practice

### Fibria Celulose SA

#### Sustainability Report 2012

The report displays past and future targets along with strategic objectives in a single and impressive table that clearly indicates their level of achievement according to three thresholds: fully achieved, partially achieved and not achieved.

The table also includes short and long-term targets which are consistently measurable and all linked to material issues.

More specifically, long-term targets are discussed in every section of the report and can be quickly identified throughout the narrative because they are represented by icons.

The screenshot shows a table with columns for 'Target', 'Status', and 'Description'. It lists various sustainability goals such as 'Reduce greenhouse gas emissions' and 'Improve water efficiency'. Each target is accompanied by a circular icon indicating its achievement level: a solid circle for 'Fully achieved', a half-filled circle for 'Partially achieved', and an empty circle for 'Not achieved'. The table is organized into sections for different material issues.

### Lafarge SA

#### Sustainability Report 2012

Lafarge clearly discloses their level of achievement for past targets.

For each target, the company gives an explanation on the rationale for its ambitions against which change and progress are measured.

In addition to short-term targets, the company has built on its program to develop 'Sustainability Ambitions 2020', which are incorporated throughout the report.

Lafarge provides detailed discussions on how it plans to achieve its targets. For example, it states the company's reorganizations to develop people and improve efficiency, and it explains that the company moved to a risk-based approach to strengthen local health.

The screenshot shows a table titled 'SUSTAINABILITY AMBITIONS 2012: HAVE WE DELIVERED?'. It lists various targets such as 'Reduce greenhouse gas emissions' and 'Improve water efficiency'. The table includes columns for 'Target', '2011', '2012', and '2013' performance. It also includes a 'MANAGEMENT' section with a 'Key Change' column. The table uses color coding to indicate achievement: green for 'Fully achieved', yellow for 'Partially achieved', and red for 'Not achieved'.

### The Procter & Gamble Company

#### 2012 Sustainability Report

The PG report has a strong future focus, prominently displaying long-term targets (up to 2020) for each focus area. Moreover, their report links every 2020 goal to a vision and includes some medium-term targets (up to 2015).

At the beginning of the report and every new section thereafter, the report transparently discloses progress against targets set in 2007.

Targets are often accompanied by a description of activities undertaken in the reporting period. This gives an insight into how the company tackles challenges.

The screenshot shows a table titled 'Our Final Results: 2007-2012 Sustainability Goals'. It lists various goals such as 'Reduce greenhouse gas emissions' and 'Improve water efficiency'. The table includes columns for 'Goal', 'Progress as of 12/31/2012', and '2012 Result'. It also includes a 'Description' column. The table uses color coding to indicate progress: green for 'On Track', yellow for 'At Risk', and red for 'Off Track'.



# Stakeholder engagement

Stakeholder engagement is an open dialogue process with those people or groups who are influenced or impacted by a company's activities, now and in the future. Engagement can take various forms, from day-to-day, business-as-usual engagement, to more strategic and planned engagements such as surveys, forums and other stakeholder dialogues.

## Key findings

- > The most effective reports provide details on a strategic stakeholder engagement plan, as well as ongoing day-to-day engagement with key stakeholders, including communities, employees, NGOs, investors and customers.
- > Additionally, they provide information on the outcomes of engagement and how this has influenced, if at all, their sustainability strategy and activities.
- > Some reporters however provide limited evidence of their engagement activities with stakeholders, focusing instead on the means of engagement rather than the outcomes of engagement.

## Key recommendations

- > Provide information on your approach to stakeholder engagement including channels used to engage your stakeholders, key topics of engagement for each stakeholder group and outcomes from engagement activities. In particular, discuss whether the issues and opportunities offered by the stakeholders have informed any changes to your sustainability strategy or management approach.
- > Where a significant stakeholder concern has been raised by multiple groups, for instance in relation to perceived or known controversial activities, discuss these concerns in an open and transparent way and invite further dialogue so that you can develop an appropriate response.
- > Consider how third-party opinion can increase the strength of stakeholder input in your report, for instance through stakeholder panels, balanced quotes and interviews.

## In practice

### SGS SA

#### Sustainability Report 2012

The report provides a comprehensive table with extensive evidence of various stakeholder engagement activities.

The report identifies all key stakeholder groups as well as other stakeholders who are influenced and affected by the company's operations. Each of the groups is then specifically addressed and the outcomes of engagement are summarized in a separate box.

Particular attention is given to the company's employees. SGS has introduced a Sustainability Engagement Index to measure the level of employee awareness and their involvement in the company's sustainability approach.



### Kimberly-Clark Corporation

#### 2012 Sustainability Report

The report provides credible, often critical, stakeholder quotes throughout their report.

The report includes a comprehensive table that identifies key stakeholders groups, the issues of relevance to them and examples of various engagement channels.

There is evidence in both the report and the assurance statement that stakeholder views have been listened to and acted upon.

STAKEHOLDER GROUP	AREAS OF INTEREST	EXAMPLES OF ENGAGEMENT
Consumers	<ul style="list-style-type: none"> <li>Improved health and hygiene</li> <li>Affordability</li> <li>Good customer service</li> </ul>	<ul style="list-style-type: none"> <li>Cause marketing campaigns</li> <li>Consumer education campaigns</li> <li>Consumer satisfaction surveys</li> <li>One-on-one interviews</li> </ul>
Wholesale Customers	<ul style="list-style-type: none"> <li>Sustainability attributes of products</li> <li>Environmental impacts of manufacturing, e.g., water use</li> <li>Post-consumer waste</li> <li>Product quality and safety</li> <li>Consumer education</li> <li>Pricing</li> </ul>	<ul style="list-style-type: none"> <li>Customer meetings</li> <li>One-on-one interviews</li> </ul>

### Duke Energy Corporation

#### 2012 Sustainability Report

The company demonstrates a dedicated stakeholder approach, which is described in the CEO's statement where each stakeholder group is addressed in turn. The report highlights how employees are strongly committed to sustainability and growth.

Starting from 2012, a 'What it includes' section was added to each of the key focus areas described in the report. The purpose of this new addition is to further clarify the company's activities to its diverse stakeholders whose concerns will also be reported on in the future.

STAKEHOLDER GROUP	AREAS OF INTEREST	EXAMPLES OF ENGAGEMENT
Consumers	<ul style="list-style-type: none"> <li>24/7 call center operations</li> <li>Green services and social media</li> <li>Business customer account managers</li> <li>Customer bills and events</li> <li>Smart meters</li> <li>Energy efficiency and grid modernization collaborations</li> <li>Large business customer forums</li> </ul>	<ul style="list-style-type: none"> <li>Affordable energy</li> <li>Renewable energy</li> <li>Increasingly clean energy</li> <li>Energy efficiency advice and solutions</li> <li>Prompt and convenient customer service</li> <li>Very low power outages</li> <li>Robust estimates of reduction times when outages do occur</li> <li>A secure power grid</li> <li>Competitively priced, reliable energy</li> <li>Convenient service, billing and payment options</li> <li>Energy education</li> <li>Energy efficiency programs</li> <li>Renewable energy investments</li> <li>Clear power and outage alert programs</li> <li>Transparency response and storm restoration information</li> <li>Power grid modernization</li> <li>Effective cybersecurity policies and practices</li> </ul>
Employees	<ul style="list-style-type: none"> <li>The Peralta District who containering projects, blogs, videos and discussion boards</li> <li>Annual employee surveys</li> <li>Employee recognition surveys</li> <li>Quarterly Open House call employee meeting led by CEO</li> <li>Executive Communication Tour</li> <li>Weekly a newsletter for all employees</li> </ul>	<ul style="list-style-type: none"> <li>Safe and healthy workplace</li> <li>Competitive pay and benefits</li> <li>Open communication</li> <li>Career development opportunities</li> <li>Fair and consistent treatment</li> <li>Access to adequate resources</li> <li>Strong corporate reputation</li> <li>Safety policies, procedures and training</li> <li>Robust programs</li> <li>Benchmarking of pay and benefits to ensure competitiveness relative to market</li> <li>Training and development opportunities</li> <li>Performance management enhancements to help align pay with performance</li> <li>Strongy performance programs</li> <li>Employee resource groups and mentoring programs</li> <li>Robust talent management</li> <li>Confidential ethics helpline</li> <li>Continuous improvement opportunities</li> </ul>



# Partnerships & collaborations

Appropriate and strategic partnerships and collaborations can help accelerate action and scale up solutions by combining expertise, resources and networks across key stakeholders who share a common goal. Partnerships and collaborations should focus on addressing a company's material issues and support the implementation of a company's sustainability strategy.

## Key findings

- > The most effective reporters highlight strategic partnerships and collaborations that address material issues, and help to implement the company's sustainability strategy.
- > The most engaging reports provide details on the expected benefits of partnerships and collaborations for the business as well as for relevant stakeholders.
- > Companies however do not always consistently focus on establishing partnerships which are strategic and that have the potential to deliver the biggest value for the business by being closely aligned with the overall sustainability strategy. Such partnerships are typically philanthropic and not linked to core strategy.

## Key recommendations

- > Focus on those strategic partnerships and collaborations that address material issues for reporting purposes only. This will help ensure that partnerships are connected to business activities.
- > Explain the strategic objectives in establishing partnerships and collaborations with specific stakeholders and demonstrate how these relationships create synergy and generate value for the business by setting and monitoring indicators to evaluate outcomes, cost impacts and benefits at the outset.
- > Diversify partnerships and collaboration with different stakeholders ranging from cross-industry collaborations to NGOs, local communities and governments.

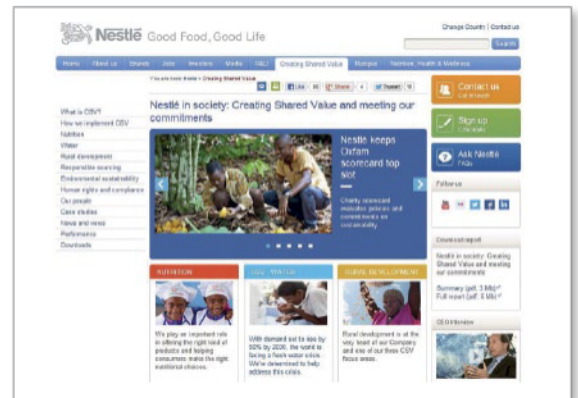
## In practice

### Nestlé SA

#### Creating Shared Value and meeting our commitments 2012

Partnerships are one of the three ways used to implement Nestlé's vision of 'Creating Shared Value'. As a result, the reporter provides a very detailed account of strategic partnerships at a local and global level in a variety of areas to address material issues.

For example, the company engages in partnerships with the International Federation of Red Cross and the Ivory Coast Red Cross on the importance of hand washing. Engagement with communities takes the form of programme activities and dialogue with farmers. With respect to governmental partnerships, the company collaborates with the Inter-American Development Bank on upgrading the coffee value chain in Haiti, and with the Malaysian government to protect water resources.



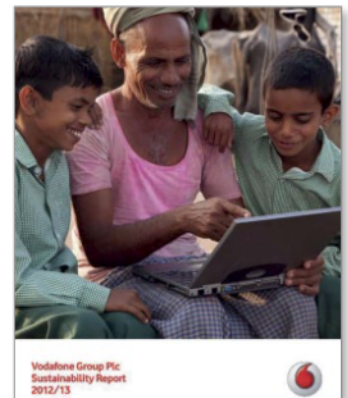
### Vodafone Group plc

#### Sustainability Report 2012/13

There is a strong partnership-oriented focus to Vodafone's report, which demonstrates how the company delivers 'transformational solutions'.

The narrative provides a compelling explanation of how Vodafone is partnering with others to develop and scale up solutions such as extending access to its mobile payment platform in emerging markets.

Vodafone also explains the roles of the different partners involved in the project and highlights how collaboration creates value for both customers and the company by extending access to emerging markets. Through case studies, it further illustrates specific outcomes resulting from focused collaborations.



### Veolia Environnement SA

#### 2012 CSR Performance Digest

Through focused partnerships, the company advances best practice in its core business activities, namely energy efficiency, water and waste management, it constantly evaluates its performance and shares the results with its partners.

Through operational and R&D partnerships with universities or start-ups, or even some of its key suppliers, the company works on the best solutions to improve the environmental and social performance of its solutions and services.

Through commercial partnerships with its customers, Veolia co-creates solutions to their sustainable issues, enhancing their process performance through the optimization of their energy, water and waste footprint.

Veolia also aims to contribute in progressing the UN Millennium Development Goals, for example, through the development of subsidized connection programs with innovative financing arrangements in partnership with contracting authorities that are specifically created to help low-income households have access to basic services like drinking water and sanitation.





# Balance

A balanced report is transparent about risks, successes, failures, challenges and opportunities that a company faces now and in the future. The report should reflect positive as well as negative performance over the reporting period to enable a complete and unbiased assessment by the reader.

## Key findings

- > The most effective reporters disclose sustainability risks that pose a threat to the company and its profitability.
- > Effective and credible reports are balanced in the way they disclose progress on performance, including missed targets and areas of poor performance, and provide context and corrective measures.
- > Some reporters however do not disclose information on the challenges they have encountered and focus exclusively on positive stories and performance.
- > Some companies do not respond to major stakeholders' concerns through their reporting. This can undermine the credibility of the report and may harm reputation.

## Key recommendations

- > Use the report to describe all the material risks and challenges that have emerged during the reporting period as well as those that might emerge in the near future. Engage with and involve the organization's risk management function to help inform your narrative on these issues.
- > Provide details on missed targets and areas of poor performance including context and corrective measures to ensure a balanced report.
- > Demonstrate through the report how you have engaged with stakeholders to respond to concerns on material issues.
- > Disclose the nature and amount of fines paid and non-compliance incidents, what caused them and what actions are being taken to prevent them in the future, as well as any settled or ongoing litigation. For the latter, involve the legal and finance functions to ensure consistency with other corporate reporting disclosures.



## In practice

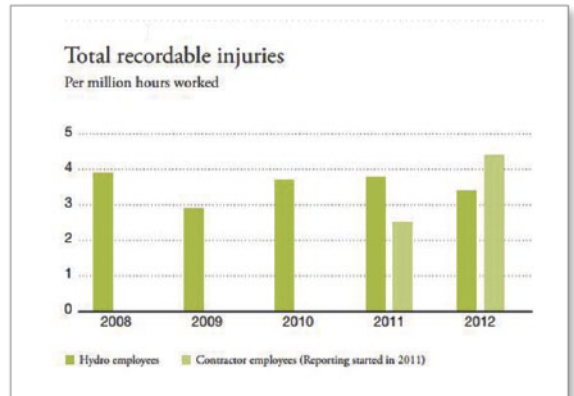
### Norsk Hydro ASA

#### Annual Report 2012

The report includes a compelling discussion on diverse projects that focus on environmentally sound and commercially-affordable ways of dealing with negative externalities.

Norsk Hydro includes critical third-party commentary that adds a different perspective and informs the company on the expectations from outside stakeholders.

The company recognizes the detrimental effects it has on some communities with whom it has initiated dialogue to find ways of addressing their concerns.



### The Coca-Cola Company

#### 2011/2012 Sustainability Report

The report is transparent about the challenges that the company, its independent bottlers and its brand face. Large sections of the report are dedicated entirely to addressing negative perceptions of the business.

The Coca-Cola Company is transparent about the events that have undermined progress and slowed the company's path to attain certain goals.

The report discusses in detail existing global health problems and resource scarcities, and describes how the company is combating these to be part of the solution, including through several function-specific reports like climate change, water and obesity.

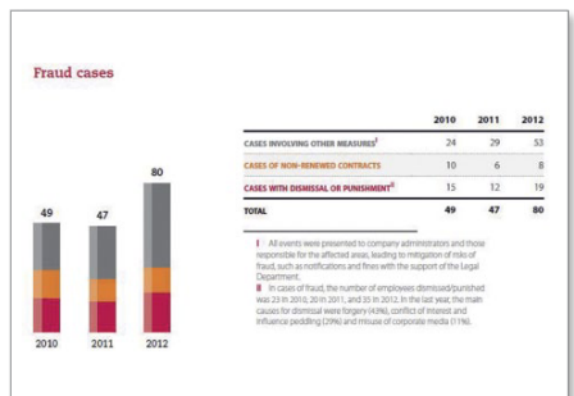


### Vale SA

#### Sustainability Report 2012

The company openly discusses the legal actions that it faces, as well as the fines they had to pay in 2012. The report outlines how top leadership is addressing these legal issues.

A detailed narrative is provided with regard to fatalities as well as on other difficulties that Vale has experienced during the reporting period.





# Content architecture

Content architecture refers to the layout, structure and ease of navigation throughout a report from the reader's perspective. These features improve the users' understanding of the content and bring coherence to a report.

## Key findings

- > The most effective reports use a consistent layout throughout, which helps readers find the information they need quickly and easily. They also use devices to promote navigation around the report. Our review shows that these reports service both deep-dive and skim-readers equally well.
- > Some reporters do not adopt a consistent information hierarchy, which means that information is not organized and is difficult to locate, read and understand.
- > Many reporters do not use the content index to its full potential and do not incorporate interactive functionality into their PDF reports.

## Key recommendations

- > Consider different report readers' needs, especially those who will engage with the content in detail and those more likely to skim read or only want the big picture. Ideally your content should work on both levels.
- > Use a consistent layout for similar sections, including headings, sub headings so there is a clear content hierarchy. Also use introductory paragraphs to deliver key messages. This will help enhance the reader's experience and will improve their engagement with the content together with helping them determine what they want to focus on.
- > Create a comprehensive content index to promote full visibility of the report and its content.
- > Incorporate interactive functionality into the PDF report, such as horizontal or vertical tabs, to help readers move between sections and find content outside of the report.

## In practice

### The Procter & Gamble Company

#### 2012 Sustainability Report

The company presents an engaging and well-structured report with great interactive features that facilitate the reader experience.

Every section begins with an introductory paragraph followed by results related to their 2020 goals. Issues are then consistently related to the company's vision and progress.

PG's report makes key information easy to find. This is facilitated by color-coding, and a very useful navigation index functionality that instantly directs the reader to sections of interest.



### Holcim Ltd

#### Corporate Sustainable Development Report 2011

The report offers an original approach to thematic issues. Each section of the report deals with a sustainability challenge and adopts a consistent structure. A Q&A format is followed by further details on the implementation of the challenge.

The Q&A format always contains graphs to illustrate key data while the second part of the section always includes a case study.

The questions are defined by members of the external report review panel representing different stakeholders and the topline responses originate directly from members of Holcim's executive committee.



### BP plc

#### Sustainability Review 2012

The BP report establishes a hierarchy of information throughout the document. Dividers between the different sections of the report contain an overview of goals and key figures while the sub-sections consistently include a small introductory paragraph.

Moreover, the report clearly differentiates between types of content (e.g. charts, stakeholders' commentary, case studies, critical questions).

Information is optimized through referencing within and outside the report and the report uses adequate interactive search features.





# Line of sight

Clear line of sight – how key aspects of reported content are connected – involves understanding how important strategic elements, such as big picture goals, material issues, targets or actions, KPIs and performance intersect or overlap. Drawing these connections enhances the reader’s understanding about how key strategic aspects are inter-related.

## Key findings

- > The most effective reporters manage to show the connectivity of their strategic approach through an overarching strategy section, which graphically shows the connections. Furthermore, they use cross references to show how these elements relate to each other.
- > Only a few reporters demonstrate such a sophisticated approach to line-of-sight reporting across strategic elements, with most companies reporting in discrete sections.
- > While most companies use cross-referencing to improve line-of-sight, often this is only partial which makes the content seem fragmented.

## Key recommendations

- > Graphically show how your material issues relate to big picture goals (where these exist) and in turn how these are underpinned by targets and KPIs. Use this to summarize your strategic approach and to direct readers to more detailed content elsewhere in the report.
- > Consider other areas where line of sight connections can be reinforced, for example by showing links between megatrends and your material issues and associated risks and opportunities, as well as how your corporate strategy, vision or mission relates to your sustainability strategy.
- > Ensure connections are made across related issues and content by cross-referencing and by using linking devices such as color coding and icons. This will enhance cohesion between different sections.

## In practice

### Unilever plc

#### Progress Report 2012

The report unfolds in a clear and logical order demonstrating strong coherence between the different sections.

The diagram at the beginning of the report gives a complete overview of the company's strategy, activities, goals and indicators in one diagram that is entitled the 'Sustainable Living Plan'.

Each section of the report links back to the 'Sustainable Living Plan' and gives more detail on each of the outlined strategy pillars.

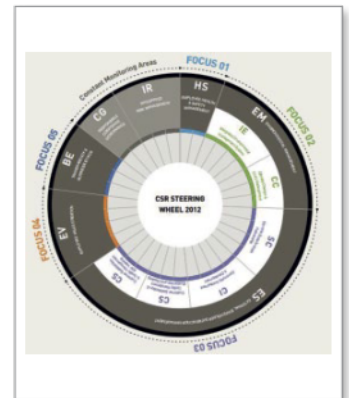


### Hankook Tire

#### CSR Report 2011/12

The report visualizes the company's integrated CSR management system as a circular diagram which is first introduced at the beginning of the report. The illustration summarizes Hankook's key areas of focus highlighting these different components in appropriate colors.

Each new section of the report refers to the circular diagram highlighting the relevant focus area of the CSR management system under consideration and applies consistent color-coding.

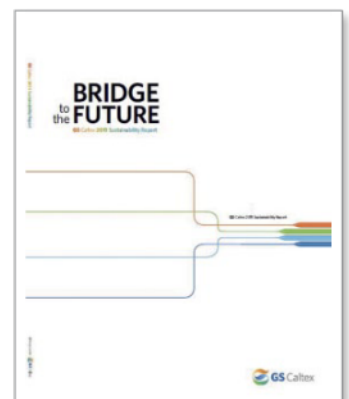


### GS Caltex

#### 2011 Sustainability Report

The report starts with the description of the materiality process, stakeholder dialogue and the prioritization process that leads to the identification of the four key strategic areas. The rest of the report is explicitly structured around these.

The material issues to be discussed in the respective sections are outlined at the beginning of each chapter and cross-referenced to the materiality table. This feature facilitates the user experience and enhances line-of-sight connections.





# Accessibility

Accessibility refers to the ease of finding the fullest source of reported information from the homepage of the corporate website as well as the availability of information in multiple reporting formats suitable for different readers. Accessibility is an extremely important experience criteria as it's the first contact with the reader.

## Key findings

- > The most effective reporters direct readers to their reports from the homepage of the corporate website.
- > Reporters provide multiple formats that suit different stakeholders' needs, including summary reports, data centres and downloadable excel spreadsheets, video case studies, interviews and online HTML reports for casual browsing.
- > Some reporters do not however offer easy access to their reports from the website homepage and have only PDF format available.
- > The GRI index is not always used to its full potential, with readers often directed to broad sections within a report rather than specific pages.

## Key recommendations

- > Post the report on the website homepage or at least display a link prominently in relevant sections of the website (e.g. under sections on sustainability, investor relations or 'About us'). All supporting information for the report such as summary reports and press releases should be easily accessible as well.
- > Always have a PDF report available for download and make use of other formats which best meet stakeholder needs.
- > Alternative formats should be used where there is audience demand. As part of a stakeholder engagement process consider asking which formats they prefer.
- > For those reports that self-declare GRI application levels, include a GRI index within, or alongside, the report and index accurately so that those who want to access detailed information can find it easily.

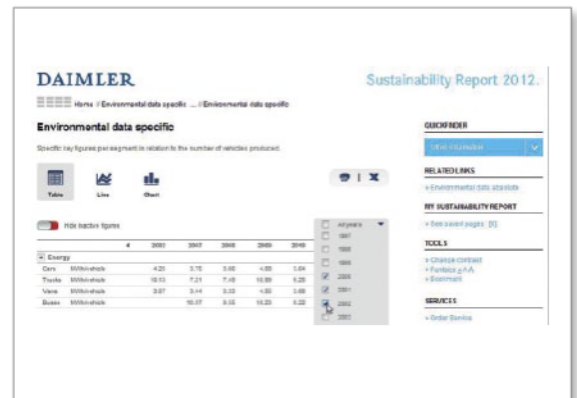
## In practice

### Daimler AG

#### Sustainability Report 2012

The useful features of Daimler's report are contained in the online version, which incorporates key figure tools that allow readers to create bespoke tables and charts to suit their needs. The interactive version of the report supplements the PDF with more in-depth information.

The website features a search function, which offers another option to access the report from the homepage. The GRI index can be found in the interactive report and can be downloaded as a separate file.



### Kimberly-Clark Corporation

#### 2012 Sustainability Report

The report's availability in multiple formats is to be praised. The interactive online report acts in support of the PDF version and contains a color-coded 'build your own report' function, which enables the user to download particular information tailored to his or her needs. Data and performance highlights are also clearly displayed.

In addition, Kimberley Clark's report contains a GRI index which links to more detailed documents and improves visibility of the GRI indicators to which it refers in every section.

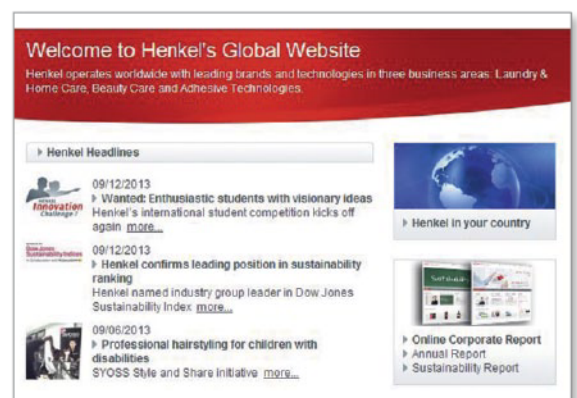


### Henkel AG & Co

#### Sustainability Report 2012

The sustainability report is clearly posted on the website homepage. The link directly opens Henkel's microsite, which gives access to multiple formats: a hard copy of the report can be ordered while the PDF report and data excel files can be downloaded.

Moreover, the online report includes links to videos that offer an alternative way to find out more about the sustainability activities of the reporter.





# Information presentation

Information presentation involves the use of design to convey simplicity and improve understanding. It can include infographics to simplify complex content, typographic styles to emphasize key messaging, as well as photography and illustrations to support written content. Getting the balance right on information presentation can improve the reader's understanding of content.

## Key findings

- > The most effective reporters make use of typography and font size to support key messages and improve user navigation by color-coding key sections. They also use photography, illustrations and infographics to good effect and where appropriate, to communicate information in an interesting and compelling way.
- > Some reports however tend to pack too much information on to a single page in an effort to demonstrate comprehensiveness and reduce page count.
- > Some charts and visuals are so complex that they defeat their initial purpose, leading to confusion rather than improving understanding.

## Key recommendations

- > Incorporate clear and compelling information presentation throughout your report to improve understanding of complex issues and communicate core messages in a visually-appealing way.
- > Ensure that the use of infographic elements simplifies your content, ideally so that a layperson can understand it.
- > Ensure photography is appropriate and consistent throughout, and reinforces your key messaging. Avoid over-used stock images where possible.
- > Where your brand allows, introduce color-coding and use graphic dividers to help with navigation. This will make the report easy to navigate.
- > Avoid cramming too much information on one page and make a good use of white spaces to reduce information overload.



## In practice

### CEMEX

#### 2012 Sustainable Development Report

The company conveys a strong message throughout the report. Various features and a compelling design are used to communicate information.

Each graphic divider adopts a new color and contains a message-led typographic element, which matches the title of the section and enhances the message across the report.

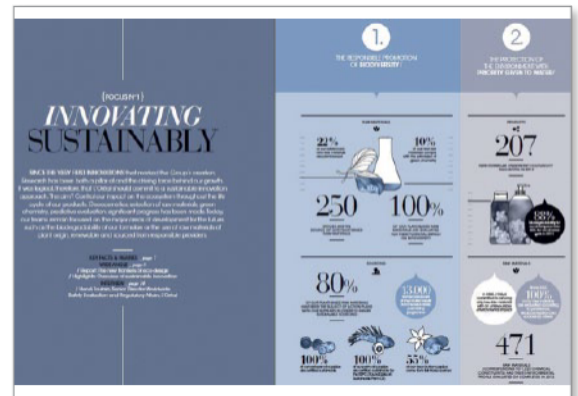


### L'Oréal SA

#### Sustainable Development Report 2012

In line with its know-how, the reporter uses an elegant design and appropriate photography of people and products to give an overview of the different sustainable initiatives developed by brands that belong to the company.

The report contains a variety of design elements that facilitate navigation and engage the reader. Color coding and graphic dividers are used to differentiate the sections while relevant icons are used throughout the report.



### Schneider Electric SA

#### 2012–2013 Strategy and Sustainability Highlights

The report employs an engaging design, which places an emphasis on key numbers and stakeholders' quotes. Navigation of the report is facilitated by the use of colors to highlight stakeholders' quotes in all sections of the report.

Schneider Electric succeeds in giving a comprehensive overview of its performance and a better insight into its activities through appropriate illustration and compelling graphics.





# Conciseness

Conciseness implies focusing on the most relevant information and messages, and prioritizing quality over quantity. It is one of the most challenging criteria to get right. If a report can be drafted in a concise manner, it can avoid unnecessary disclosure, improve coherence while reducing information overload for readers.

## Key findings

- > The most effective reporters produce reports that are meaningful and relevant to the reader while being succinct and focused. Summary documents are sometimes used to provide an even more concise overview of performance.
- > Often, despite their length, reports do not provide sufficient information on material issues and other critical aspects of effective reporting.
- > Some reports are not easy to read because of the choice of language and use of long, detailed sentences.

## Key recommendations

- > Understand your audiences' information requirements and ensure reports meet their needs.
- > Focus reporting on your material issues and avoid unnecessary disclosures on less important issues.
- > Agree on word limits for key sections and ensure report contributors are properly briefed so that they understand how much detail is needed.
- > Appoint an editor to take overall responsibility for ensuring conciseness and focused disclosure.

## In practice

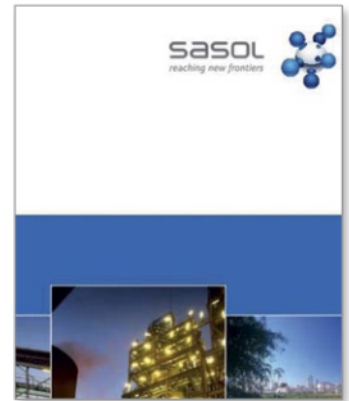
### Sasol Limited

#### Sustainable Development Report 2012

The company produces a concise report that is completely focused on the material issues and is structured around these.

The report avoids over-disclosure or general discussions not directly related to the company's activities. Furthermore, the reader is advised to visit the company's website for more detailed content.

Sasol demonstrates best practice by supplementing the full PDF report with a comprehensive summary report that compiles key highlights from the reporting year.



### SABMiller plc

#### Sustainable Development Report 2012

SAB Miller publishes a report written in simple English, with crisp sentences and bullet points presenting content information in a more comprehensive way.

The priority issues identified by management are consistently reported on, ensuring that the narrative included is relevant.

There is a compelling summary report that comes with the full online version.



### Siemens AG

#### Sustainability Report 2012

The Siemens report presents a good example of a company that has succeeded with the conciseness criteria – the company discloses the right amount of information without undermining materiality.

The reporter wisely uses tools such as cross-referencing and search functionalities to direct the reader to the company's website in order to find out more on specific topics. This contributes to the reasonable length of the report.



# Reflections and next steps

Corporate sustainability performance needs to be measurable, comparable and linked to scientific environmental, social and governance (ESG) priorities. Effective reporting processes and communications can play an important role in driving this evolution, by helping to improve risk identification and performance management internally, as well as contribute to better valuation of companies through external disclosures.

## This first edition of Reporting Matters produced some interesting findings:

- > Materiality, context and measurable KPIs are under-utilized and require more attention
- > The connection between sustainability projects and performance to value creation needs to be made more explicit
- > Validation of performance to reinforce the credibility of the report could be smarter
- > Combined or self-declared integrated reports are gaining popularity: one in five reports reviewed for *Reporting Matters* combines ESG disclosures with the annual report
- > It is important to understand who the intended report has been written for as the reader's experience matters. Reports get read if they are concise and to the point, are easy to navigate, are informative and unfold in a clear and logical order and
- > Non-financial reporting is a very diverse world with multiple formats and titles being used. Length of reports vary a lot, and there is a wide range of options in terms of reporting frequency and boundaries setting.

*Reporting Matters* aims to establish a baseline of performance across the sustainability reporting practice of the WBCSD's membership that can: a) inform recommendations for improvement; b) draw a line in the sand from which improvement can be measured; and c) offer a pool of inspiring examples that could stimulate best practice sharing and support engagement with a view to addressing business needs and challenges.

The majority of WBCSD members do report on their sustainability performance, and invest significant resources in producing relevant data. However, this is often done without clearly understanding if their disclosures are actually being used and by whom. Just one-third of CEOs running public companies believe their share price currently includes value directly attributable to sustainability initiatives and performance<sup>1</sup>. We hope this report will help companies better understand what others are doing that could, in turn, improve the value of their own reporting.

Our focus is to contribute to improving the effectiveness of non-financial reporting through engagement with business and other stakeholders on the corporate reporting scene to help address questions such as:

<sup>1</sup> The UN Global Compact – Accenture CEO study on Sustainability 2013, September 2013

- > How to maximize the chance that reports will be read and understood by the intended audience? How to engage externally and internally on the sustainability journey and outcomes?
- > How to identify issues material to a business, develop indicators fully aligned with strategic goals and corporate values, get best practice on data management?
- > How to select from multiple formats the one that will most effectively reach and engage the relevant audience? How much information is enough?
- > How can non-financial reporting improve the flow of information for better decision making and appropriate allocation of resources?
- > How can non-financial reporting be made more effective as a change management tool? How can it help scale up sustainable solutions, drive more integration inside companies and impulse a new corporate valuation model?

Moving forward, the recently-created WBCSD *financial capital* focus area will work with WBCSD members on changing 'the rules of the game' through engagement with reporting, valuation, materiality and assurance standard setters; developing tools for integration of sustainability into risk management frameworks and valuation models; exploring the role of taxation incentives for behavior change; and build the capacity within the finance functions of companies, the investment community and regulators to implement a revised reporting framework.

In addition, WBCSD will produce a quarterly *Reporting Matters* update providing the latest news on major developments taking place in non-financial reporting, trends in corporate practice together with announcing the latest reports being published as well as relevant thought piece and trainings.

Ultimately, the WBCSD aims to help companies improve the effectiveness of non-financial reporting as a key enabler to scale up solutions to the global priorities identified in the WBCSD's *Action2020* initiative and progress towards our *Vision2050* ideals of true cost, true profit and true value.

This is one of the largest independent surveys of corporate sustainability reporting that has been undertaken covering more than 20 sectors and 30 countries. We hope it will benefit both WBCSD members as well as the wider corporate community. We welcome all comments, questions and opinions.

Just one third of CEOs running public companies believe their share price currently includes value directly attributable to sustainability initiatives and performance.

# 4

## APPENDIX

IN THIS SECTION  
53 GLOSSARY OF TERMS  
55 ACKNOWLEDGMENTS  
56 ABOUT THE RESEARCH PARTNERS



# Glossary of terms

## Assurance

The term usually describes the methods and processes employed by an assurance provider to evaluate an organization's public disclosures about its performance as well as underlying systems, data and processes against suitable criteria and standards in order to increase the credibility of public disclosure. Assurance includes the communication of the results of the assurance process in an assurance statement.

**Reasonable assurance:** Reasonable assurance is a concept relating to accumulating evidence necessary for the practitioner to conclude in relation to the subject matter information taken as a whole. To be in a position to express a conclusion in the positive form required in a reasonable assurance engagement, it is necessary for the practitioner to obtain sufficient appropriate evidence as part of an iterative, systematic engagement process.

**Limited assurance:** The nature, timing and extent of procedures for gathering sufficient appropriate evidence in a limited assurance engagement are deliberately limited relative to a reasonable assurance engagement.

**External assurance:** Assurance performed by a person from an organization independent of the company.

## Case study

Case studies in the context of a sustainability report is a narrative description (which may be supported by quantified evidence) of an aspect of the sustainability strategy in action to allow the reader to understand the impacts and effects of the strategy. Case studies should be balanced and add value to the readers understanding of the businesses strategy.

## Combined report

A report that merges the contents of a sustainability report (i.e. environmental and social disclosure) with traditional annual report (i.e. financial disclosure); sustainability information is generally only included in a designated chapter of the combined report.

## Disclosure

**Over-disclosure:** extensive amount of information on the material issues identified and/or irrelevant information that is not related to the company's material issues.

**Under-disclosure:** significant lack of information on the material issues identified.

## Enterprise risk management (ERM)

ERM is the consideration of risk from the overall organizational perspective. With ERM, all types of uncertainty are considered from all parts of the organization. The objective of consolidating information on risks is to allow consistent decision-making across all risk categories. Regulators are increasingly expecting organizations to take an integrated approach to governance, risk and compliance.

## Extra financial information

Information incorporating a wide range of issues existing beyond the traditional variables that are considered as part of investment decision-making processes. Extra-financial ESG (environmental, social and governance) factors can be quantitative or qualitative and include sustainable, ethical and corporate governance issues such as managing the company's carbon footprint and ensuring there are systems in place to ensure accountability.

## Financial capital

The pool of fund that is 1) available to an organization for use in the production of goods or the provision of services 2) obtained through financing, such as debt, equity or grants, or generated through operations or investments.

## GRI Guidelines

**GRI G3:** the G3 Guidelines are made up of two parts. Part 1 – Reporting Principles and Guidance features guidance on how to report. Part 2 – Standard Disclosures features guidance on what should be reported, in the form of Disclosures on Management Approach and Performance Indicators.

**GRI G4:** the most up-to-date version of the GRI Guidelines launched in April 2013. The main differences with the G3.1 version include: a greater focus on materiality and supply chain impacts; the replacement of application levels (ABC) by two 'in accordance' levels ('core' and 'comprehensive'); the introduction of new standard disclosures on governance; and the requirement to describe the process used to define the boundary of impact for each material issue.

**Application levels:** indicate the extent to which the G3 or G3.1 Guidelines have been applied in sustainability reporting. They communicate which parts of the Framework have been addressed and which set of disclosures. Application level aim to reflect the degree of transparency against the GRI Guidelines in reporting.

## Governance

**Internal governance:** the existence of robust government arrangements including a clear organizational structure, well defined lines of responsibility, effective risk management processes, control mechanisms and remuneration policies.

**External governance:** external stakeholders play an important role in ensuring proper corporate governance processes in a business organization. Some of the key external corporate governance controls include government regulations, media exposure, market competition, takeover activities, public release and assessment of financial statements.

## Human capital

People's competencies, capabilities and experience, and their motivations to innovate.

## Impacts

**Direct impacts** result from business activities that are owned or controlled by the company.

**Indirect impacts** are impacts on the environment and society from upstream and downstream activities which are not a direct result of the company's project/operations sometimes referred to as second or third level impacts.

## Integrated report

A concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, that leads to the creation of value in the short, medium and long term. An integrated report should be prepared in accordance with the International Integrated Reporting Council's Framework.

### Internal auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### Natural capital

Natural capital is the value of nature to people, society, businesses and the economy. It is all renewables and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization. It includes:

- Air, water, land, minerals and forests
- Biodiversity and eco-system health

### Manufactured capital

Manufactured physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services (e.g. buildings, equipment, infrastructure).

### Material Key Performance Indicator (KPI)

A quantifiable indicator that a company uses to measure and compare its performance on the identified material issues in terms of meeting specific targets and goals.

### Scope and boundaries

'Scope' is defined as the range of sustainability topics addressed in a report.

'Boundary' is defined as the range of entities (e.g. subsidiaries, joint ventures, sub-contracted operations, etc.) whose performance is represented by the report. In setting the boundary for its report, an organization must consider the range of entities over which it exercises control (often referred to as the 'organizational boundary', and usually linked to definitions used in financial reporting) and over which it exercises influence (often called the 'operational boundary').

### Scope levels

**Scope 1:** All direct GHG emissions.

**Scope 2:** Indirect GHG emissions from consumption of purchased electricity, heat or steam.

**Scope 3:** Other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. transmission and distribution losses) not covered in Scope 2, outsourced activities, waste disposal, etc.

### Social capital

The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being.

### Stretch targets

A stretch target is one that the organization cannot achieve simply by working a little harder or a little smarter. To achieve a stretch target, people have to invent new strategies, new incentives – entirely new ways of achieving their purpose.<sup>1</sup>

### Sustainable value chain approach

A sustainable value chain approach is the methodology employed by a business to describe how it has scoped, documented and assessed the impact of its value chain on its sustainability performance. It enables both business and society to better understand and address the environmental and social challenges associated with the life cycle of products and services.

### Value chain

Value chain is the terminology used to describe the upstream and downstream life cycle of a product, process or service, including material sourcing, production, consumption and disposal/recycling processes.

**Upstream activities** include operations that relate to the initial stages of producing a good or service, i.e. material sourcing, material processing, supplier activities.

**Downstream activities** include operations that relate to processing the materials into a finished product and delivering it to the end user, i.e. transportation, distribution and consumption.

<sup>1</sup> [www.hks.harvard.edu/thebehreport/All%20Issues/December2011.pdf](http://www.hks.harvard.edu/thebehreport/All%20Issues/December2011.pdf) (accessed 25 October 2013)



# Acknowledgments

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## Disclaimer

This publication is released in the name of the WBCSD. It does not however necessarily mean that every member company agrees with every word.

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This publication is a joint initiative between the WBCSD and Radley Yeldar.

# About the research partners

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## About the World Business Council for Sustainable Development (WBCSD)

[www.wbcsd.org](http://www.wbcsd.org)

The World Business Council for Sustainable Development is a CEO-led organization of forward-thinking companies that galvanizes the global business community to create a sustainable future for business, society and the environment. Together with its members, the Council applies its respected thought leadership and effective advocacy to generate constructive solutions and take shared action.

Leveraging its strong relationships with stakeholders as the leading advocate for business, the Council helps drive debate and policy change in favor of sustainable development solutions.

The WBCSD provides a forum for its 200 member companies – which represent all business sectors, all continents and combined revenue of more than US\$7 trillion – to share best practices on sustainable development issues and to develop innovative tools that change the status quo. The Council also benefits from a network of 60 national and regional business councils and partner organizations, a majority of which are based in developing countries.

## About Radley Yeldar

[www.ry.com](http://www.ry.com)

We're a creative communications business, helping you tell your story simply, in one clear voice, by whatever means works best.

How do we do this? Well, we bring together our specialists to help you talk with people inside and outside your organization. We ask the right questions. We offer unexpected insights. We deliver the right practical solutions. In this way, we help our clients keep valuable conversations going with all sorts of people, from customers to shareholders to staff.

The relationships that develop as a result tend to be meaningful and enduring. That's because we believe in delivering authenticity and clarity. You won't ever hear us, for instance, spouting jargon or consultancy mumbo-jumbo.

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INTRODUCTION

IN SUMMARY

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