DEDICATED TO MAKING A DIFFERENCE

Sustainable development **reporting**

Striking the balance

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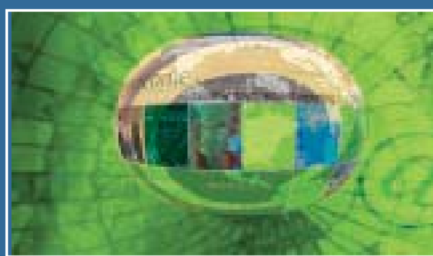

Foreword

Companies are under increasing pressure from key stakeholders to be transparent about their values, principles and performance as regards sustainable development. We are seeing a growing recognition by many WBCSD members that external reports dealing with this subject support a company's position and strengthen its reputation. These reports are part of an effective response to the need for greater accountability and transparency.

It is quite clear, however, that reporting is only the tip of the iceberg. Companies will find it difficult to continue to produce relevant and reliable reports without having internal management and information systems that support this undertaking. The key challenge is to integrate sustainable development issues into mainstream business processes and systems. This will determine how well companies 'walk the talk'.

A business guide and a 'reporting portal'

The main purpose of this report is to help companies to understand the added value that reporting can bring them. We also provide guidance, both to the initiated and the uninitiated, on how to report, thus complementing other initiatives which guide companies on what to report.

An additional feature of the project is a 'reporting portal' compiled by the council and accessible via its website (www.wbcsd.org). The new portal provides guidance on how to develop sustainable development reports and showcases reporting practices from about 50 WBCSD members. It is meant to be a living resource, expanded as new reports are published.

Information needs of rating agencies

Many WBCSD members are faced with a steadily growing demand from the financial sector to respond to questionnaires in order to be rated on their sustainability performance. We wanted to explore the overlap between companies' reporting practices and the information requested in such questionnaires. Based on discussions with representatives from the financial sector and sustainability rating agencies, we offer some thoughts on how to bridge the communications gap between reporting companies and the financial community.

Framework for reporting

In recent years, a large range of reporting initiatives, codes and guidelines has emerged. We appreciate the complex nature of sustainable development reporting, but this variety is not necessarily serving report producers and users well. We thus welcome efforts by the Global Reporting Initiative (GRI) to try to bring some harmonization into the broad variety of reporting formats that are emerging.

Yet, more work is needed to develop the basic elements of a framework and we should not strive to standardize reporting prematurely in ways that stifle innovation. Learning-by-doing is the most important source of developing higher quality and more relevant sustainable development reports. And for a number of reasons, comparability of specific performance between companies requires great caution, and we should not assume that such comparability is readily doable just because the same guidelines have been applied.

As business spokesmen and as members of the WBCSD, we will remain involved and influence important initiatives that shape the conditions and the level playing field for companies in this area. We should be aware of the temptation for legislators to turn flexible guidelines into new legislation.

Future challenges

Until now, reporting has been a voluntary undertaking with business in control of what, how and when to report. In the future, more pressure from report users and society is likely to influence the requirements for sustainable development reporting as has happened with financial reporting. Yet, there is a delicate balance here between what is realistic to expect companies to report on and what stakeholders want to see reported. That's why we have given this report the subtitle *Striking the balance*.

We hope it will provide WBCSD members and others with useful advice, and that it will be valuable in clarifying the sustainable development reporting endeavors of companies. It is certain that this subject will be with us in the business world for a long time to come.

Bert Heemskerk
Chief Executive Officer
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Pasquale Pistorio
President and Chief Executive Officer
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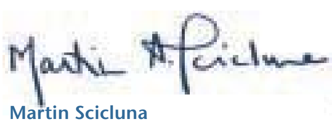


Martin Scicluna
Managing Partner, Global Strategic Clients
Deloitte Touche Tohmatsu

Executive summary

The 'Sustainable Development Reporting' project started in late 2000 to support WBCSD member companies and the wider business community as they move from environmental to sustainable development reporting. Here we survey this emerging international field and give practical guidance for producing reports.

Key stakeholders such as shareholders, employees and financial institutions want business to be responsible, accountable and transparent. Sustainable development reporting – the evaluation of corporate performance in environmental, social and economic terms – can help companies do this in ways that make business sense.

Such reporting helps to mitigate risk, protect corporate brand and secure a competitive position. Here we identify 10 benefits ranging from raising staff awareness about a company's goals on sustainable development to attracting long-term capital and favorable financing conditions.

A report should give a clear picture of corporate values, principles, governance and management practices, as well as performance. By frankly analyzing the key sustainable development challenges facing a company, and how it is responding to these, a report will enable users to better evaluate a company's risks and viability.

However, producing a sustainable development report is a challenging process that requires top management commitment, clear lines of responsibility and sufficient resources.

Addressing the needs of stakeholders

The diversity of the stakeholder audience presents companies with a challenge, as each has specific information needs. While sustainable development reports should meet the general needs of most users, they should not strive to be everything to everyone. Companies should strike a balance between what stakeholders want to know and what is practical and feasible to report.

Of all the various stakeholders, the financial community is one audience most companies identify as being very important for their reporting efforts. Information on the risks and opportunities associated with a company's social responsibility and environmental impact can be used to support investment decisions.

A growing number of financial players are concerned with the sustainability rating of companies. Our dialogues with leaders from financial rating organizations suggest that:

> There is little comparability among the various sustainability rating questionnaires sent to companies. Progress toward a common framework would reduce rating discrepancies, benefiting both reporters and players in the financial community.

> A key challenge remains reporting on the links between sustainability and the bottom line. Companies should not only show the value of mitigating risks, but also show the positive influence on profitability.

An integrated management and reporting process

Information in itself does not lead to action or a change of behavior unless it is connected to management systems. Therefore, the goal should be an integrated management and reporting approach as making reporting part of an overall management scheme improves corporate performance.

To support companies in their reporting efforts, we present a step-by-step set of questions and answers designed to prompt them to think through this process.

Common platform

There is as yet no standard approach to sustainable development reporting. The concept of sustainable development remains diffuse and encompasses complex issues that vary widely between sectors and countries – even if the three pillars of the economic, environmental and social contribution are well understood in principle. Although we welcome efforts by multi-stakeholder processes such as the Global Reporting Initiative (GRI) toward standardization, they should not be premature nor too rigid.

It is essential in these early days of sustainable development reporting that the process remains dynamic and flexible. Many state-of-the-art corporate reports can serve as practical guidance. The continued advancement of sustainable development reporting guidelines, and more importantly, companies' continued experimentation in determining the most useful content, meaningful indicators and presentation will raise the quality of reporting.

A survey of reporting practices

To bolster companies' efforts to report on their sustainable development activities, we posted a 'reporting portal' on the WBCSD's website (www.wbcsd.org) in late 2002. It offers examples of how WBCSD members are reporting on sustainable development aspects.

It currently includes a survey of the contents of 50 reports from 14 business sectors, mostly based in Europe and North America. But as more reports are added, the portal will more accurately reflect the global nature of sustainability reporting.

Future challenges

Sustainable development reporting is not only a response to the increasing demands on companies to be transparent. It is also setting the scene for the future of business management. Companies face a number of challenges:

> Sustainable development reporting is still largely a voluntary exercise. Yet new requirements calling for reporting on aspects of sustainable development performance are being introduced in corporate accounting and disclosure laws. This is because sustainable development will increasingly have an impact on the 'true and fair view' of a company's financial performance and position. This trend is likely to amplify, along with pressure for independent assessment of reported information.

> Companies' ability to measure sustainable development performance must be seen in light of the trend toward corporate 'leanness'. They will need to develop better indicators to account for and report on the financial value created by their sustainable development activities.

> Business must remain involved in the process of harmonizing reporting guidelines to ensure that these are flexible enough for companies to use.

> Companies will be constantly required to extend their reporting boundaries. Business will increasingly be expected to report across the value-chain, i.e. on supplier- and consumer-related impacts of activities, products and services.

> More emphasis will be placed on helping users to understand where a company is heading by looking at its present activities and future projections rather than, as hitherto, on concentrating on its past sustainable development performance only.

Next steps

This report marks the conclusion of the WBCSD's 'Sustainable Development Reporting' working group. As a next step, the WBCSD has launched a new project on 'Accountability and Reporting' to explore the subject from the broader perspective of corporate accountability and governance.

Background

Previous work by the WBCSD on various aspects of reporting has provided the background for the 'Sustainable Development Reporting' (SDR) project. As early as 1992 in the book *Changing Course*[1], sustainable development reporting was defined as "a demanding concept that goes beyond environmental reporting". Later, through extensive work on environmental performance and shareholder value, eco-efficiency, metrics and indicators, the council explored how aspects of sustainable development reporting could help companies improve their overall performance.

Research into corporate social responsibility also led the WBCSD to recommend ways for companies to report on social issues. Last but not least, the council devised a corporate protocol on accounting and reporting on greenhouse gases, which is gaining recognition on the international scene.

On an organizational level, the WBCSD strives to encourage good reporting practice within its membership. Conditions of membership include a clause stating that members should "publicly report on their environmental performance within three years of becoming a member and aspire to widen their reporting to cover all three elements of sustainable development – economic, environmental and social".

About the project

Against this background, the WBCSD initiated this project to document the business case for sustainable development reporting. The council wished to provide companies with guidance on why, how and what to report on based on members' experiences and practices. Far from dictating standards, we intend to address the needs of a cross section of companies by offering a flexible guide, in terms of both process and content, they can adapt to suit their own circumstances.

Many initiatives dealing with sustainable development reporting are currently under way. What makes this project different is that it is based on and shares the experiences of a range of companies from various sectors and countries. Furthermore, it provides insights into the emerging information needs of the financial sector. In particular, it explores the discrepancies between the sustainable development information reported by companies and the information required by the financial sector.

A valuable part of the project is a new online facility featuring reporting practices from almost 50 members of the WBCSD. This user-friendly tool, called the 'reporting portal', will give report producers ideas on topics to cover and examples of how other companies are reporting.

Methodology

This report was prepared by a working group consisting of members of the WBCSD (see Appendix 1). Much of its content is based on interviews with report producers at member companies who shared their experiences. Some anonymous quotes, drawn from the interviews, are featured throughout the report.

In the course of this project, to explore the needs of the financial community, the WBCSD convened two roundtable discussions in London and New York in 2001 with nearly 40 representatives from member companies and from across the financial sector (see Appendix 2).

Definitions

Sustainable development

The most commonly cited definition of sustainable development comes from the 1987 Brundtland report, *Our Common Future.*

•••• "Sustainable development is development which meets the needs of the present without compromising the ability of future generations to meet their own needs."

Our Common Future, 1987

This definition calls for business to acknowledge its responsibility for its impact on society and the environment.

From a business perspective, sustainable development encompasses three linked elements:

[1] *Changing Course, A global business perspective on development and the environment*, Stephan Schmidheiny with the WBCSD (1992), The MIT Press

> **Economic**
> Profitability, wages and benefits, resource use, labor productivity, job creation, expenditures on outsourcing and human capital, etc. The economic dimension includes, but is not limited to, financial information.

> **Environmental**
> Impacts of processes, products, and services on air, water, land, biodiversity, human health, etc.

> **Social**
> Workplace health and safety, community relations, employee retention, labor practices, business ethics, human rights, working conditions, etc.

Sustainable development reporting

•••• "We define sustainable development reports as public reports by companies to provide internal and external stakeholders with a picture of corporate position and activities on economic, environmental and social dimensions. In short, such reports attempt to describe the company's contribution toward sustainable development."

A 'one-size-fits-all' approach does not work for sustainable development reporting. It is up to each company to determine the approach it wishes to take, depending on its situation and needs. Be it an environmental report, a social report, an environment, health and safety report or an integrated report – also called triple bottom line, sustainable development or sustainability report – all these various reporting formats contribute toward sustainable development reporting.

This is an evolving field. There are many companies that have yet to produce their first report while others have published environmental reports for many years and are now moving further down the road toward the more complex area of sustainable development reporting.

Setting the scene

Drivers, trends and dilemmas

In recent years, we have witnessed a shift in what constitutes a business asset. The ownership of physical assets, like manufacturing facilities, is only part of the market capitalization of a company today. Its value is highly influenced by intangible assets such as management skills, reputation, human and intellectual capital, and the ability to work in partnership with stakeholders. Yet these assets are excluded from the balance sheet because of the difficulty in objectively valuing them.

Many of these intangible assets can only be brought to attention if a company tells about them openly. The trend is to do just this.

Reporting becomes even more important in our 'CNN world'. The spotlight can be cast instantaneously on remote activities of a company anywhere on the globe, and a sustainable development report may play a key role in pointing to the facts.

"The aim of reporting is not about making a brochure, it's about communicating the relevance of company actions to society, to the business, to its stakeholders."

Jorma Ollila
CEO and Chairman, Nokia

The push for accountability and transparency

There is a growing trend toward increased accountability and transparency of companies across all levels, functions and operations. Demands on companies from major stakeholder groups, such as shareholders, employees, and financial institutions, are mounting to disclose and discuss a wider and deeper range of sustainable development issues related to their activities, products and services.

Calls for enforced corporate accountability also come from the World Summit on Sustainable Development (WSSD) in Johannesburg[2]. All these demands are creating dilemmas between the 'users' and the 'producers' of information. Companies need to strike the balance between what stakeholders find interesting to know, what they have the right to know, and what is practical for businesses to manage and report.

"Reporting is one of those things you are expected to do."

Connecting sustainable development to corporate governance

As sustainable development becomes more engrained in companies and their governance structures, it will challenge and eventually change the parameters of acceptable corporate behavior. Companies are increasingly being asked to provide more and better information on how they identify and manage social, ethical and environmental risks, and to explain how these risks affect short- and long-term value.

Novozymes

Novozymes, a member of the Novo Group, is constantly exploring new ways of identifying and engaging with stakeholders to best meet their information needs. In an effort to increase the transparency and accountability of its report, it includes two independent statements. First, an independent assessment by an accountancy firm that ensures that the data reported has been reviewed. Second, a quality assurance review by an independent advisor on corporate citizenship that focuses on the relevance and completeness of the information included in the report.

Novozymes, Environmental and Social Report, 2001
www.novozymes.com

The pull from financial markets

Financial markets are demanding more and more information on companies' environmental and social performance because there is increasing evidence that good performance on these fronts translates into better overall performance. A comparison between the Dow Jones Global Index and the Dow Jones Sustainability Index between January 1997 and April 2002 showed that the Sustainability Index significantly outperformed the other index.

Some very important investors, such as pension funds in major European and North American markets, are now taking sustainability evaluations of companies into account when making investment decisions. A growing share of investments is indeed being placed in sustainability funds in comparison to conventional funds. Shell estimates that in 2001, Socially Responsible Investment (SRI) funds were worth some USD 3 trillion in the US alone.[3]

[2] See *Johannesburg political declaration* and *plan of implementation* (September 2002)
[3] *People, planet and profits* (2001)

Toward a more prescriptive approach

Reporting on sustainable development issues is currently a voluntary process. However, this is changing with mandatory requirements being introduced for aspects of sustainable development in certain countries such as France, Germany and the Nordic countries. In addition, many codes of conduct and normative developments are acting as drivers for corporate transparency (the Global Reporting Initiative, OECD guidelines, the UN Global Compact, etc.).

These developments point toward the establishment of more standardized reporting formats in future that may reduce a company's flexibility to experiment and innovate with reporting.

Peer pressure on the rise

Peer pressure is influencing companies to be more transparent about their activities and to report publicly on their sustainable development performance. The efforts of certain pioneering companies exert a pressure on other companies to follow their example and also raise the expectations of interested parties.

Shell

Shell reports on the benefits and value creation of integrating sustainable development principles into its business operations. The group identifies four key levers: reduced costs, increased options (new markets, evolving business portfolios), new customers and reduced risks.

Shell, People, planet & profits, 2001
www.shell.com

Dilemmas for business

Reporting is a good way for a company to communicate openly about its values, objectives, principles and performance in relation to sustainable development. This makes it easier to build trust between a company and its stakeholders, which is important for continued support for its license to operate. Yet, the call for increased transparency and reporting is also creating dilemmas for business.

How open can a company be? How should it handle its stakeholders? All stakeholders do not have equal influence on a company. Some have a more direct influence than others, like shareholders, employees, customers, local communities and suppliers. Therefore a company is faced with the dilemma of setting stakeholder priorities when reporting.

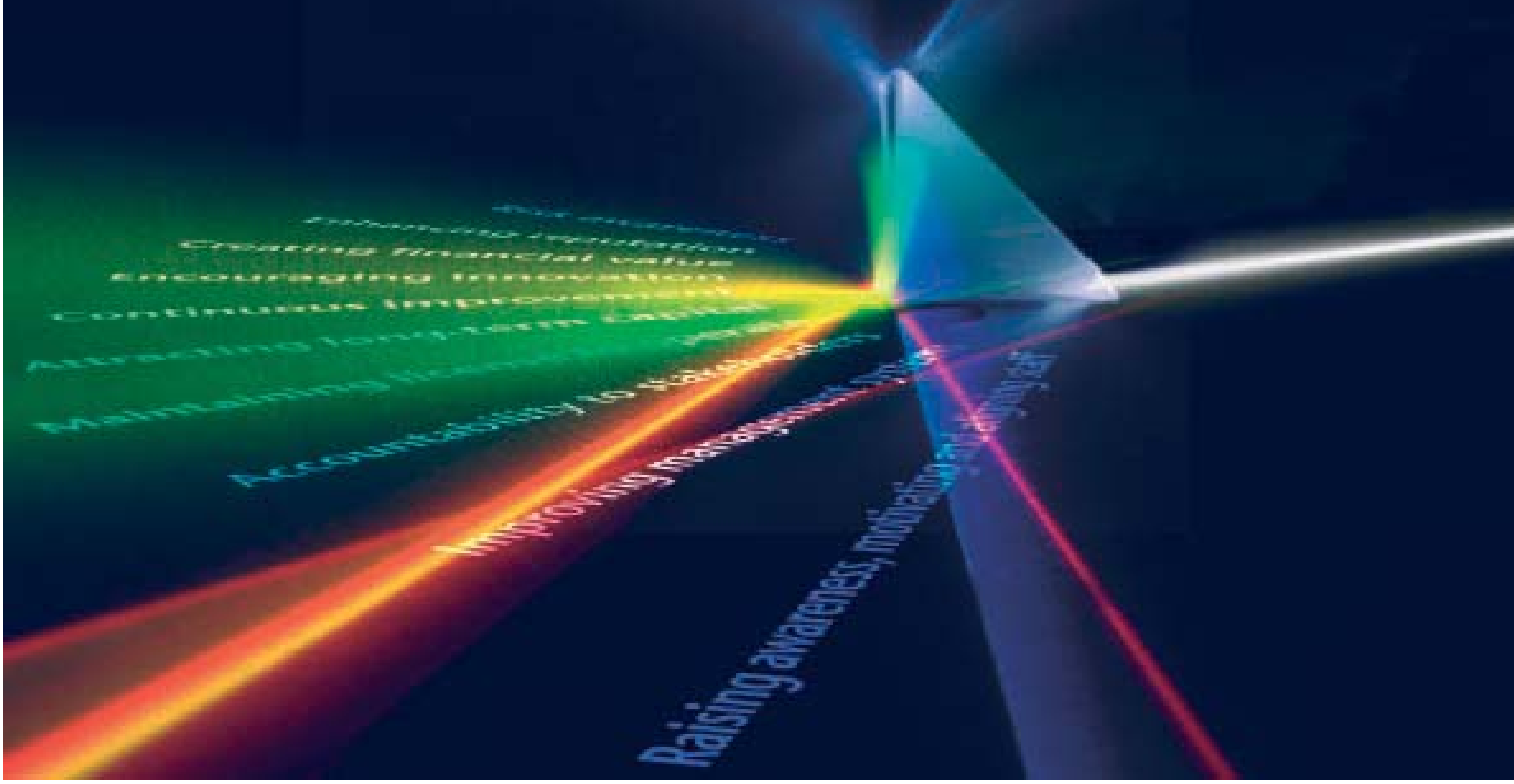
Another dilemma comes from the triple bottom line concept. The debate has led many people to believe that there are three equally important bottom lines. Environmental and social considerations are crucial for today's corporations, and without a good performance in these areas, a company will probably not achieve long-term economic sustainability. Yet, financial losses will never be outweighed by even the best social score, and ultimately there is one bottom line that supports the other two, namely the financial one. Without making profits, a company cannot survive for long. But as prime economic actors, companies generate benefits to society that go far beyond financial returns to shareholders only.

So, despite the many positive trends and drivers, there are also some practical factors working against sustainable development reporting. In particular:

> **Cost versus benefits**
A company may incur significant costs, both in terms of human and financial resources, for producing a sustainable development report. The cost will be considerably less if the data is already being collated for specific business purposes.

> **Systems versus reports**
A long lead time is necessary to create data gathering systems for new parameters. This explains why companies tend to report on issues which they are familiar with as reporting on new topics requires the development of dedicated systems to collect the necessary information. This can prove both very expensive and time-consuming.

> **Transparency versus legal implications**
Some companies are wary about the uses to which their sustainable development information will be put. How do they deal with environmental and social information that leaves room for interpretation, potentially misinterpretation? Others are reluctant to publicize their adherence to codes of conduct as they fear the future legal implications and lawsuits this may entail.



The business case

There are many arguments in favor of sustainable development: moral, ethical, environmental and more, but being a business council, the WBCSD emphasizes the business case.

Simply stated, companies cannot be managed based on philanthropic principles. They must be able to demonstrate that their commitment and contribution to sustainable development, including reporting, makes good business sense.

> “There is a growing awareness that shareholders’ value is enhanced by increased corporate social and environmental responsibility. Therefore sustainable development reporting has become an indispensable part of good corporate business practice.”

Pasquale Pistorio
President and CEO, STMicroelectronics

Clearly in today’s world, a company’s reputation makes up an increasing proportion of its market capitalization. Thus it follows that investing resources in enhancing reputation can increase and sustain shareholder value.

Done well, sustainable development reporting can demonstrate to stakeholders that the company is honestly striving to meet stakeholder performance values and expectations across financial, environmental and social dimensions. Furthermore, by integrating sustainable development performance into its management processes, a company may be able to identify new linkages between the variables of sustainable performance and the drivers of shareholder value.

Some may argue that reporting makes the company more transparent, and therefore exposed to more criticism. However, we believe that today it is the lack of transparency that is more risky, particularly in the wake of recent corporate scandals.

Although it may be often painful, consistently open and honest reporting builds stakeholder trust, a valuable asset especially in times of difficulty.

Rio Tinto

In its online statement of business practice, *The way we work*, Rio Tinto identifies sustainable development as a means of raising performance standards, including financial results and shareholder value. It sees competitive advantage by minimizing risk, maintaining and creating market access, reducing and managing environmental effects, working with host communities and building a good reputation. The group also recognizes that a sustainable development response to social expectations translates into corporate strength.

Rio Tinto, Sustainable Development online
www.riotinto.com

The business case for sustainable development

Companies are likely to engage in sustainable development activities if these yield a short- to medium-term return on investment. The business case for sustainable development is thus easier for companies to realize when they can expect rapid value creation. Yet, the complex nature of sustainable development often requires a long-term approach, and frequently calls for actions outside the immediate realm of companies, by society as a whole.

By focusing on the longer-term perspective, business can pursue enlightened self-interest and thereby help to move society toward sustainable development. In a report entitled *The Business case for sustainable development*[4], the WBCSD describes ten building blocks for achieving a sustainable society (see page 14). Business has practical experience with some of these building blocks such as innovation, eco-efficiency, dialogue and partnerships. Others, like establishing appropriate framework conditions, represent a tougher challenge for business and its partners in government and civil society.

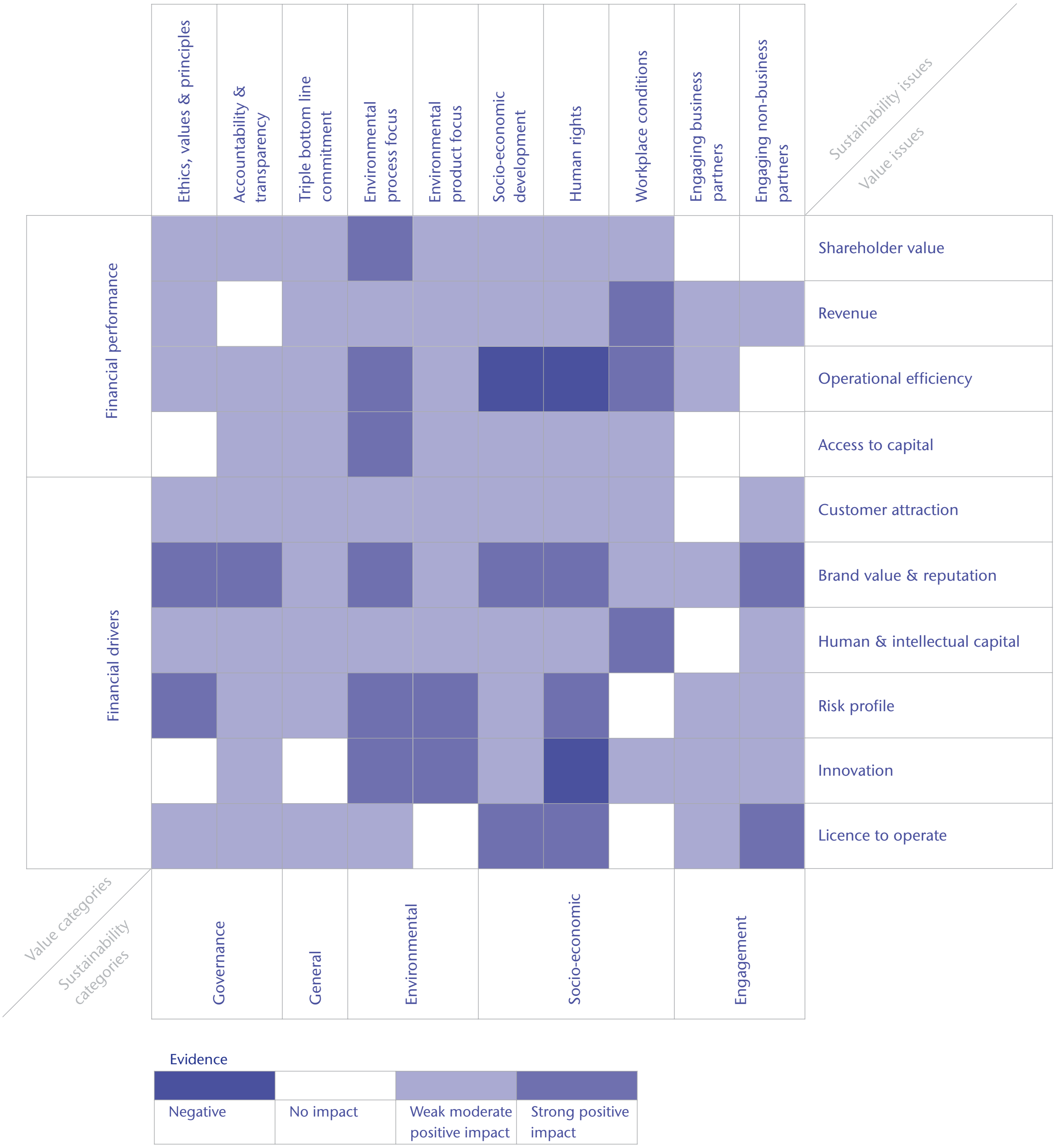
The business case for sustainable development can also take a short-to medium-term perspective. *Buried Treasure*, a report from UNEP and SustainAbility, provides a succinct, yet comprehensive analysis of the link between sustainable development and value creation.

Its ‘Sustainable Business Value Matrix’ (see page 13) exemplifies the impact of sustainable development issues (positive, indifferent, negative) on financial value creation. The matrix links ten dimensions of sustainable development performance with ten more traditional measures of business success. Companies may want to use this matrix when assessing their individual business case for sustainable development.

[4] *The business case for sustainable development, Making a difference toward the Johannesburg Summit 2002 and beyond*, WBCSD (2001)

Sustainable Business Value Matrix

Type of evidence available for the various relations between sustainability and value creation



Buried Treasure: Uncovering the business case for corporate sustainability, SustainAbility, UNEP, Business Case (2001)

“The business case depends on the company’s external environment and its internal values. It is part of an overall management system designed to deliver a company’s strategic objectives consistent with sustainable development.”

“The business case depends on trends in society and other framework conditions – it’s dynamic.”

Norske Skog

Norske Skog defines sustainable development as “striving, at the same time, for the goals of economic progress, environmental improvements and social responsibility”. While recognizing this definition of sustainable development, Norske Skog chooses to give out an environmental report rather than a broad report covering social responsibility as well. This reflects the nature of the company’s business which is primarily forestry where there is a strong emphasis on environmental impact rather than social impact.

Norske Skog, 2001 Environmental Report, 2001
www.norskeskog.no

The business case for sustainable development: 10 building blocks

1 – The market
Sustainable development is best achieved through markets that encourage innovation and efficiency. Markets are human constructs and we need to continue to improve them to best serve the needs of society if we want to maintain global open markets.

2 – The right frame
If basic framework conditions push us all in the wrong direction, then that is the way society will go. Business needs governments to set appropriate framework conditions which can support its efforts to move toward sustainable development.

3 – Eco-efficiency
A main business contribution to sustainable development is eco-efficiency. By adopting eco-efficiency measures, a company will improve both its environmental performance and its financial results.

4 – Corporate social responsibility
Corporate social responsibility is an evolving concept that is always being redefined to serve different needs and times. This leads to a constant debate about the respective roles of government and business in providing social, educational and health services. Also, how far along the supply chain does a company’s responsibility extend?

5 – Learning to change
Corporate concern for the ‘triple bottom line’ – financial, social, and environmental – requires change throughout the corporation. A sustainable business excels on the traditional financial return but it also embraces environmental performance, and community and stakeholder issues.

6 – From dialogue to partnerships
We need to go beyond stakeholder dialogues toward partnerships that combine skills and provide access to constituencies that one partner may not have. They also improve the credibility of the conclusions and actions.

7 – Informing and providing consumer choice
If business believes in a free market where people have choices, companies must accept responsibility for informing consumers about the social and environmental effects of those choices.

8 – Innovation
To become more sustainable, companies must innovate, that is, continuously modify or invent new products, services, and manufacturing processes that are more eco-efficient than their predecessors. However, unless companies engage stakeholders in their innovation processes, they will not succeed in gaining social or marketplace acceptance.

9 – Reflecting the worth of the earth
We do not protect what we do not value. Proper valuation will help us use the markets to maintain the diversity of species, habitats, and ecosystems, conserve natural resources, preserve the integrity of natural cycles, and prevent the build-up of toxic substances in the environment.

10 – Making markets work for all
Poverty is one of the single largest barriers to sustainability. Only well-constructed markets can offer the 2.8 billion people struggling to live on less than two dollars a day the opportunities they need to move out of poverty. Governments cannot do it alone. But they can, and must, establish the frameworks that allow for this to happen.

The case for sustainable development reporting

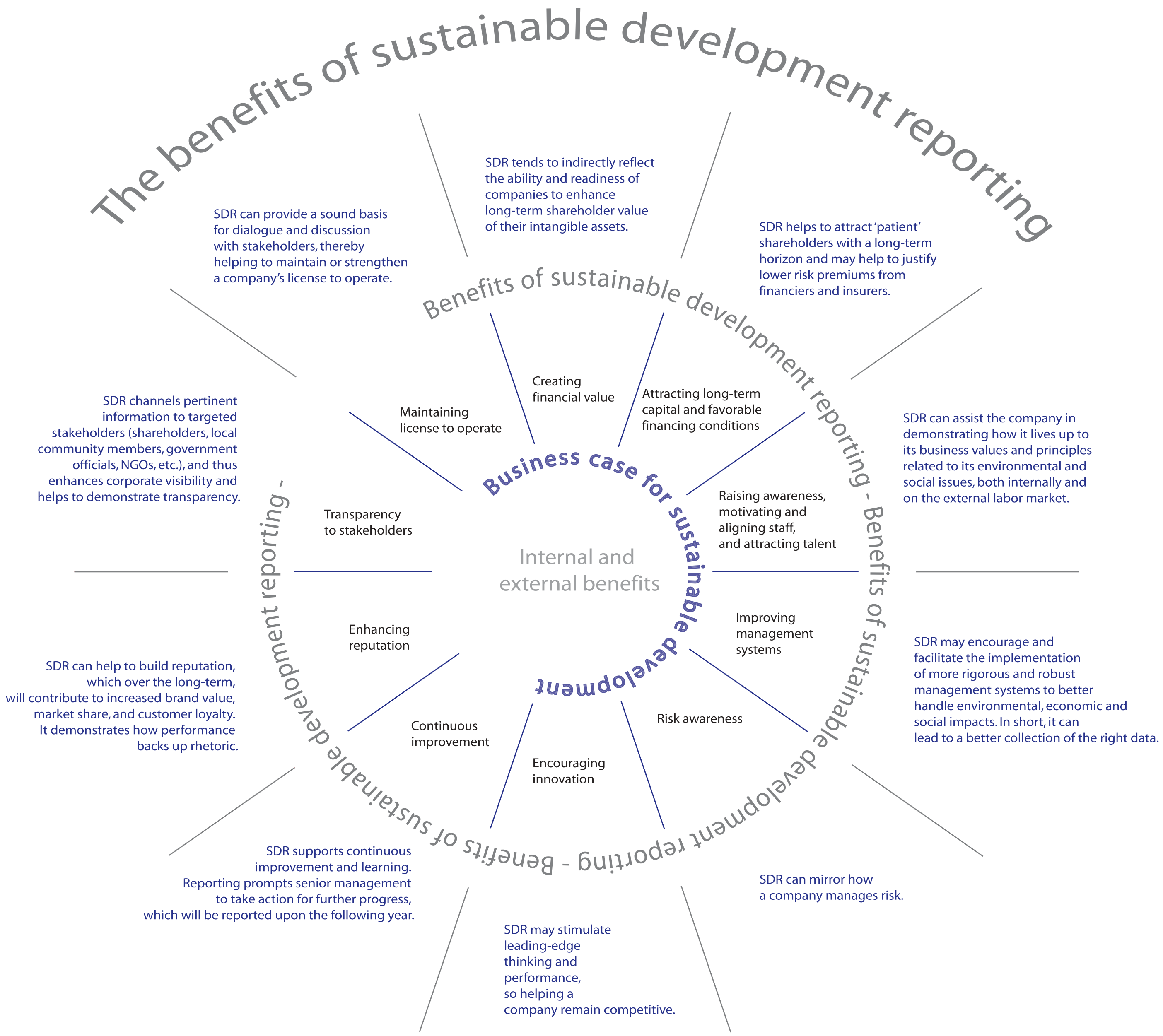
As shown in the graphic below, the business case can be made for sustainable development reporting. From raising staff awareness about a company's activities on sustainable development to attracting long-term capital and favorable financing conditions, we identify ten direct and indirect benefits from reporting.

It should be added that the act of producing a report can be a benefit in itself. A report requires a company to have a more systematic approach to sustainable development and it becomes a part of the learning process within the organization.

Nestlé

For Nestlé, sustainable development is defined as the process of increasing the world's access to higher quality food, while contributing to long-term social and economic development, and preserving the environment for future generations.

Nestlé, Sustainability Review, 2002
www.sustainability.nestle.com



How to address stakeholders in general

The content of a sustainable development report should address the information needs of particular stakeholders. Not all stakeholder groups may be targeted in one report, and a company has to make choices. Choosing the 'right' audience brings clarity and focus to a report. It is thus up to each company to decide who is, or are, its primary target audience(s).

In the traditional view, there were three stakeholders: investors, employees and customers. The modern view is to recognize a broad universe of stakeholders, including direct and indirect stakeholders, who are influenced by or influence the company.

> “We need to open up the books, reports with greater transparency than ever before, especially in this environment in which business is faced. We need to maintain an ongoing dialogue with an ever broader range of stakeholders, not just employees and shareholders, but also neighborhood communities.”
>
> *Philip Watts*
> *Chairman of the Committee of Managing Directors, Royal Dutch/Shell Group of Companies*

Direct stakeholders include shareholders and employees, often considered to be a company’s most important asset. Indirect stakeholders include all the individuals and organizations within the company’s sphere of influence, such as customers, suppliers, NGOs, capital markets, financial analysts, government agencies, local communities, etc.

These diverse parties are interested in different aspects of a business and may even have conflicting agendas. A stakeholder matrix can help a company to determine which other stakeholder groups, in addition to its own employees, are the most relevant for its reporting efforts.

Stakeholders can be identified and categorized in a matrix (see below) along two axes: their level of influence versus level of interest. The stakeholder groups that appear in box ‘D’ (stakeholders who exert a high level of influence and have a high level of interest) should be the main target of the company’s reporting efforts, and the company should report on how it takes their views into consideration when working with sustainable development issues. Further, their interests need to be taken into account in the governance structures of a company.

A company should be cautious when assessing influence. For instance, vocal stakeholders like strong activist groups may in fact be less important to a company than a minority group of indigenous people located far away from corporate headquarters. This depends on the company’s values and principles but also on its sector of activity. Some mining companies, for instance, find it particularly relevant not only to report at a corporate level but also to publish site reports aimed at local communities.

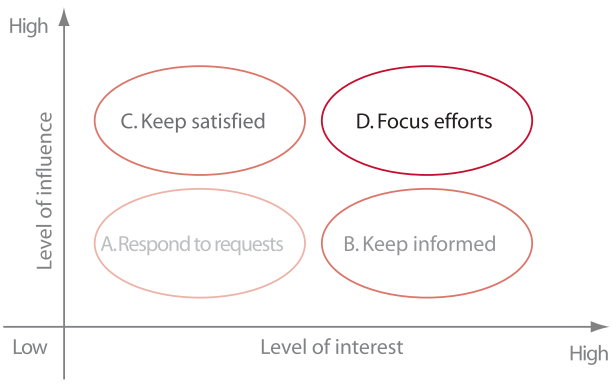
WMC

Alongside its corporate sustainability report, WMC offers various online site reports describing its results and impacts on society at the local level. The purpose is to satisfy the information needs of what the company calls its ‘neighbors’ and other stakeholders affected by its operations at different sites.

WMC, Sustainability Report, 2001
www.wmc.com

“The company tries to identify stakeholders’ expectations in order to decide on the issues to be reported, but this process remains very subjective as it is only based on perceptions.”

Stakeholder matrix



An outline of stakeholders and their information needs

Various stakeholders read sustainable development reports in order to satisfy their particular information needs. But what are they really looking for? The key groups are outlined here while the following section focuses on the financial sector.

> Employees

Employees and their representative groups are interested in information about sustainable development in order to judge if the company is a stable employer and a respected corporate citizen. They increasingly want to work for companies that are contributing to society besides being economically successful. They are also interested in information about levels of remuneration, retirement benefits and the nature and extent of their employment opportunities.

> Customers

Customers, especially those who have a long-term involvement with or are dependent on a company, have a vested interest in its continuing prosperity. With this in mind, customers want to know about the values and attitudes that underpin its activities, and the societal risks linked to its activities, products and services. Many customers also want to know that the products they are buying are environmentally and socially friendly.

> Suppliers

Some suppliers may be dependent upon the company if it is a major customer. Sustainable development information can help them determine risks, which could ultimately lead to the inability of debtors to pay, or increase their risk exposure by associating them with questionable business practices. A report can also inform suppliers of the demands they may face from the company as part of its supply chain.

> Governments and their agencies

The interests of governments and their agencies are broad. Their information needs may only be met to a limited extent by sustainable development reports. Government authorities require information in order to regulate the activities of companies and to determine policies for competition, taxation, the environment, consumers and social affairs. Reports can enhance the credibility of a company applying for permits or trying to influence policy. Reports may also be used as a source of data when compiling national statistics related to sustainable development.

> The public

Companies affect members of the public in various ways. For example, they may make substantial contributions to the local economy through employment and their use of local suppliers. The public is usually aware that there are both benefits and costs for the local community where a company is located. Is there a balance between what a company takes out and what it puts back into the community? Sustainable development reports may assist the public by providing information on recent trends, developments and company activities.

> NGOs

A variety of non-governmental organizations (NGOs) represent a broad range of interests and concerns such as environmental protection, human rights or consumer issues. NGOs may use sustainable development reports as a basis for understanding companies' values, principles, attitudes, performance and goals.

> Investors

The providers of risk capital and their advisors are concerned with the risk inherent in, and return provided by, their investment. They need information to help them determine whether they should buy, hold or sell, or attempt to influence the company's direction. As these users are normally the ultimate financial risk-takers in a company, providing them with information that meets their needs usually ensures that it is relevant to others parties as well.

> Lenders

Lenders are interested in information that will enable them to determine whether their loans and interests will be paid in due time. Sustainable development information can help lenders to determine risk factors associated with the company's business practices.

Sustainable development reports should meet the general needs of most users but should not strive to be everything to everyone. It is not the quantity but the quality of information that counts.

How to address the needs of the financial community

Of all the various stakeholders, the financial community is one audience most companies identify as being highly relevant for their reporting efforts. Though the annual financial report is targeted primarily at this audience, sustainable development reports are increasingly used and valued by financial players.

Investors and financial analysts are not just interested in financial information. Information on the risks and opportunities associated with a company’s social responsibility and environmental impact can be used to support their investment decisions.

“Corporate sustainability reports and sustainability ratings are increasingly used as key information for investment and lending decisions. A top priority for companies and the financial sector is thus to meet the demands for more coherence between sustainability reporting and rating.”

Bert Heemskerk
Chief Executive Officer, Rabobank Group

One financial analyst once boasted that he and his colleagues can find the basic information they need from the financial pages of an annual report within 30 seconds. It can take much longer for them to find what they are looking for in a sustainable development report. But what exactly are they looking for? That depends, because the financial community is by no means homogeneous.

Companies should recognize the diversity of needs and interests of this group – ranging from rating agencies, to socially responsible investment (SRI) and sustainability funds to mainstream banking and investment. That’s why it’s difficult to provide one set of data to cater for the whole financial sector.

In the course of this project, the WBCSD convened two roundtable discussions in London and New York with nearly 40 representatives from member companies and actors from across the financial sector (fund managers, banks and rating agencies). A full list of participants is given in Appendix 3.

The objective was to explore the needs of the financial community, and how business can best tailor its reporting strategy to meet these needs. A follow-up meeting was held in Geneva to discuss the roundtable conclusions primarily with representatives from sustainability rating agencies and WBCSD members.

The conclusions of the discussions are outlined in this section. Particular emphasis is given to one of the key groups in the financial sector – the rating agencies. This will highlight some of the challenges of evaluating companies on their performance in terms of sustainable development.

“We need to identify non-financial risks and opportunities that are relevant to financial performance.”

How rating agencies value companies

In recent years, there has been a rapid growth of sustainability rating agencies. These companies provide investors and other stakeholders with information on companies’ social and environmental performance.

The reason for their growth is that investors, insurers, bankers, fund managers, securities brokers and so on are demanding more information on how companies perform within the area of sustainable development. As the traditional analysis of corporate performance by mainstream financial analysts does not take this into account, investors are turning to sustainability rating agencies to satisfy their needs.

Rating agencies usually evaluate the sustainability performance of companies in three phases: first the data collection phase, second the data analysis and the verification phase, and third the consolidation, benchmarking or rating phase.

In the first phase, the rating agencies collect the data on a company by using a variety of techniques such as questionnaires, interviews, company information, published material in newspapers and magazines, financial data from various sources, and company visits.

Though questionnaires are often used by rating agencies, interviews with company representatives as well as company visits are seen as a valuable complement as they provide more in-depth information and an opportunity for verification. For companies, answering the questionnaires is often the most visible phase of the rating process and one which may require significant effort and resources. Of course, some companies are more geared up to providing information than others.

The second phase for most rating agencies is the data analysis and verification process. This can involve the comparison of company statements to public information, for example. The objective is to produce a profile of the company.

The final phase of the rating process is perceived by many companies to be discretionary as it often involves the subjective weighting of issues relative to one another. It is the trademark of rating agencies. They use a model to aggregate the collected information and generate a sustainability score. Consequently, there is only limited disclosure of how this last phase is conducted, although this is slowly changing.

•••• “How can we reconcile long-term sustainability issues with short-term market fluctuations?”

Small overlap in sustainability questionnaires

As part of the ‘Sustainable Development Reporting’ project, desk research[5] was undertaken to analyze the questionnaires used by the leading rating agencies. Results show a low level of comparability. Under the umbrella of sustainability, very different concepts are measured and therefore companies are rated in different ways.

Furthermore, the overlap of questions is found to be unexpectedly low with only about 15% of questions occurring in all the questionnaires. The overlap relates to subjects such as public access to information, risks at stake, the scale of activities, policy and mission statements, emission levels, human rights and supplier issues. For rated companies, this leads to the impression that all questionnaires are different and require overwhelming efforts to be completed.

The focus of the questionnaires tends to be on environmental and social issues with little attention to financial performance. This is because, in many cases, sustainability rating agencies cover only the social and environmental aspects. They either sell their ratings in this form or ‘buy in’ the financial data available on the market from various financial institutions. Only a few sustainability rating agencies, which provide both rating services and fund management, combine these processes in-house.

One way for rating agencies to provide more standardized questionnaires would be to use common assessment criteria. This would increase the credibility of the rating process and help to improve comparability. The cooperation of 12 rating agencies worldwide coming together under a common umbrella, the Sustainable Investment Research International (SiRi) Group, using a similar questionnaire, data gathering approach and analysis, shows that consistency is achievable.

Relation between the content of questionnaires and the GRI guidelines

The analysis carried out on the questionnaires also revealed a high level of similarities with the Global Reporting Initiative (GRI) 2000 guidelines. The research found that the content of the GRI guidelines covers more than 80% of the issues mentioned in the various questionnaires of the sustainability rating agencies. The issues not covered by the GRI guidelines are related to more in-depth cost analysis, more specific questions about social and environmental issues, and more focus on the integration of sustainability into core management systems and governance. Thus, the GRI guidelines could fulfill a role in the effort to increase consistency in the various questionnaires.

•••• “A system that would allow companies to manage the core 90% of sustainability issues and deal with the rest on a case-by-case basis would be an important development.”

[5] Research was undertaken between September and December 2000, on behalf of Rabobank, by the Baco Group in the Netherlands.

Conclusions from the roundtable discussions

As mentioned, two meetings of WBCSD members and representatives of the financial community were held in London and New York. The starting point for the European meeting was that sustainability was firmly on the agenda of the business and financial players. There was also a great deal of discussion on how sustainable development reporting might be standardized. In contrast, in North America, there was a debate on what sustainability means and how to raise its profile.

Despite differing views, these discussions led to a shared understanding of the challenges and issues involved in sustainable development reporting. They generated ideas and options to streamline information, increase reporting and rating comparability and enhance the link to the economic bottom line. Below is an outline of the main conclusions from the discussions that are relevant to the reporting efforts by companies.

For and against standardization

Increased globalization in the world economy means that ideas spread extremely fast. In this fast-changing world, international companies need guidance about what sustainable development means and how to take it into account in their reporting practices. However, the concept of sustainable development is diffuse and encompasses complex issues that vary widely depending on sectors, countries, cultures, etc.

In the opinion of many participants at the roundtables, a more consistent understanding of the relevant issues could assist companies to move toward common reporting practices. In the same way, it would help if financial institutions shared a common view of sustainable development. This would enable to create a 'level playing field'.

Roundtable participants, both companies and sustainability rating agencies, agreed that standardization of reporting formats and questionnaires could improve the comparability of reporting and the rating process in terms of quality, transparency and consistency. This would also ensure a higher degree of acceptance of the results by companies, investors and the public at large.

•••• "Sustainable development must be linked to and balanced with the need to deliver shareholder value."

Improve the overlap between reporting and questionnaires

One solution to harmonizing reporting practices and allowing greater comparability would be for companies and rating agencies to use a common reference point such as the Global Reporting Initiative (GRI) guidelines. Some companies are already adopting this approach to some extent. While preferring to report their performance against their own business policies and commitments, they still recognize the value of efforts such as the GRI.

However, even though greater uniformity may provide benefits in terms of simplification, some are wary of the consequences. Many felt that standardization would be the next step and, at this stage, would only stifle innovation and creative ideas. Companies do not feel ready to have exacting standards imposed on them when they are still learning about how to report and what to report on.

Increase comparability of questionnaires and analysis

The requirement for greater consistency and transparency in the rating process was cited as a key factor that would give companies more confidence about how their answers are evaluated.

Various rating schemes can result in different rankings of individual companies. Some companies gave the example of "being first in sustainability rating A" but "not even qualified in sustainability rating B". This has led some companies to question the credibility of the rating process itself. However, discussions with rating agencies show why there are differences.

Disparities are primarily due to the specific rating methodologies used by each agency. Others are linked to the quality of the information obtained in the rating process and to the subjectivity or needs of clients and users of the sustainability assessments. Yet, this may be managed in a direct communication between the rater and the user.

Further, differences are due to the fact that some sustainability rating agencies demand external assessment of data presented in a sustainable development report in order to qualify companies for a top grade. Yet the fact that one company's report is reviewed by an independent assuror and another is not does not necessarily mean that the company performs any better.

If a greater degree of comparability between the questionnaires can be achieved, it will yield a double benefit. Firstly, it will substantially reduce the resources a company needs to allocate for effective handling of the various questionnaires. Secondly, it will provide rating agencies with more consistency in the outcomes of their ratings within sectors and, hopefully, also in the rating of the same company by different rating agencies. This will serve to make the overall rating process more transparent and credible.

Look to the future in reports

In sustainable development reports, companies should focus more on the future. A company's value on the stock markets is not only determined by its current profits but by expectations about its future earning ability. In practical terms, companies should report on their future sustainability plans in addition to providing historical data on past activities.

A useful sustainable development report should indeed help users to understand how well significant risks and opportunities arising from the sustainability agenda are being addressed and how well responses are integrated into business practice and procedures. This integration is a challenge to current thinking in many businesses concentrating mainly on short-term financial impacts.

•••• "How can we move toward measuring implementation and actions, as opposed to focusing on policies and principles?"

Brief the right people about sustainable development

Reporting should be considered as part of an active dialogue between the company and its stakeholders and not as a separate one-off activity. This requires new ways of thinking and working. Companies need to establish a dialogue with the financial community in order to explain their strategic approach to sustainable development. This may include how the company manages risk and exploits commercial opportunities.

For public companies, this should be done within any regulatory disclosure framework for equal treatment of shareholders in terms of timing and content of information that may impact stock prices.

Providing data is not enough. And it is not enough for a few enthusiastic specialists to champion the cause of sustainable development within a company. For establishing a successful dialogue with outside investors, the investor relations team inside the company needs to be briefed on sustainability issues and their effect on value creation. The same applies to the relevant management people including top management. This was cited as a crucial factor for success.

•••• "Creating a dialogue rather than a reporting mechanism is key to communicating with the financial community."

Demonstrate the link with the economic bottom line

A key challenge remains to demonstrate the link between sustainability and its positive effect on the economic bottom line, i.e. to convert sustainability parameters into quantifiable indicators that financial analysts can use. Environmental measures, for example, are sometimes seen as simply a way to meet regulatory requirements.

As stressed by participants, companies should not only show the value of avoiding risks, but also show the positive influence on profitability. While keeping the needs of all stakeholders in mind, information should be linked to shareholder value. There is a need for a balanced picture of the immediate costs involved in implementing sustainability policies versus the long-term benefits.

Rabobank

SAM (Sustainable Asset Management Group), a leading sustainability rating agency, expresses the sustainability performance of companies in a 'Sustainability Cluster Score'. In 2001, Rabobank has been rewarded by SAM with the highest score for banks in all categories: economic, environmental and social. With a 64% rating, the bank scored the maximum, along with three other banks, thus placing all four in first position.

Annual Responsibility and Sustainability Report, 2001
www.rabobank.com

BP

BP does not currently use the GRI guidelines, either in terms of report structure or to report against the specific GRI indicators. The company prefers to report its performance directly against its business policies and commitments. Furthermore, the GRI guidance is currently focused more on indicators that aggregate information to a global level while BP is striving to better describe its impacts in ways that demonstrate the bridge between local efforts and global initiatives.

However, the company recognizes the value of the GRI to assist the process of improving disclosure by identifying better sustainability indicators and to enhance comparability by standardizing reporting.

To help its report users that are interested in the GRI process and to assist them in comparing with other companies, BP has mapped its own report against the GRI indicators, using the following classification: (a) indicator fully reported by BP, (b) indicator partially reported by BP, (c) indicator not reported by BP.

BP, Guide to our environmental and social reporting, 2001
www.bp.com

The way forward

A significantly higher degree of coherence in sustainable development reporting and sustainability rating is important for companies as well as for the financial sector. One way is to adopt more harmonized reporting and rating practices through the use of a common reference point such as the GRI.

Although this would increase the consistency, credibility and comparability of reporting and rating, guidelines should not become too rigid too early. They should be flexible enough to allow companies to report on their core sustainable development issues and deal with the rest on a case-by-case basis.

"To achieve standardization, you must balance what is feasible and practical with ever-increasing demands for information."

To move forward, the focus should be on what is possible and practical at this time. Companies who are wrestling with this new type of reporting need to take it one step at a time along the road to sustainable development.

Developing a framework
for sustainable development reporting

Many players are striving to give guidance or make explicit requirements for reporting on sustainable development performance. Demands on companies span from well-known multi-stakeholder processes such as the Global Reporting Initiative (GRI) and its *Sustainability Reporting Guidelines* to new national annual report disclosure requirements and requests from investor agencies.

As more pressure is placed on companies to provide ‘standardized’ information on sustainable development performance, appropriate framework conditions for sustainable development reports should be developed.

In this section, we outline some observations and thoughts on the key aspects of a framework, and provide ideas on how to further develop a level playing field.

“If knowing oneself, having performance indicators and circulating them are the fundamentals of management practices and the basis for an effective deployment of an ambitious policy, the publication of an integrated corporate annual report presenting our economic, social and environmental performance is the first step toward the progressive integration of the three dimensions of sustainability.”

Gérard Mestrallet
Chief Executive Officer, Suez

Key aspects of a framework

Why a framework?

A framework should help to harmonize reporting practices regarding sustainable development. It should help:

- standard setters and regulators at national and international levels to develop guidelines
- report producers to deal with topics where no detailed guidelines exist
- assurance providers to form a conclusion on sustainable development reports
- report users to interpret the information contained in sustainable development reports

The scope of a framework

A framework should be generic and address the common information needs of a wide range of users. It should apply to all commercial, industrial and business reporting entities, whether from the public or private sector.

It is useful to consider a conceptual framework as an undertaking with its own merits. It should not address particular aspects of sustainable development aimed at targeted audiences. Nor should it deal with specific elements of sustainable development reports, such as structure, content and indicators.

Detailed guidelines should be developed along with a framework. They should address specific elements, such as the structure, content and indicators. Guidelines might be integrated as a subset of the framework or stand-alone. *The GRI Sustainability Reporting Guidelines*, for instance, are presented as ‘one package’ including elements of a framework and detailed guidelines.

A framework should ideally address four elements. First, the underlying concept of sustainable development and how it is applied in an organizational context. This helps to set the background and should be based on the needs of report users. Second, the objective of sustainable development reports. Third, the qualitative characteristics that determine the usefulness of the information contained in reports. These characteristics, together with the objective of the reports, are fundamental to a framework. Fourth, a framework should define the basic elements of sustainable development reports, as well as develop detailed guidelines.

In the following pages, we focus on key aspects of the objectives and characteristics that determine the usefulness of sustainable development reports. In doing so, we identify five key dilemmas.

Objective of sustainable development reports

We believe sustainable development reports should provide readers with information about the company's contribution toward sustainable development, i.e. its position and activities on economic, environmental and social dimensions. This information is useful to a wide range of users *in making decisions on their involvement with/or relations to a company.*

For instance, it can help them to assess management stewardship or accountability, decide whether to hold or sell their shares in the company, whether to become or remain an employee, or whether to start or continue to buy its services.

Sustainable development reports should thus meet the common needs of most users. This creates both challenges and dilemmas for report producers and guideline setters.

Dilemma 1: Sustainable development reports cannot be everything to everyone

There is currently no common understanding of how a sustainable development report could best support the majority of users. The dilemma is that some information might be valuable to some while useless to others, and an overload of information makes it difficult to assess its merit or value. The risk of trying to be everything to everyone is that no one is satisfied in the end.

Financial statements help users to take economic decisions. How can sustainable development reports help users to make decisions regarding their involvement with or relation to a company? This concept needs to be further explored.

Sustainable development reports largely portray sustainable development impacts of past activities and processes in addition to management commitment, structures and processes to deal with future impacts. However, the nature and extent of these impacts are often not properly understood. Sustainable development reports are currently limited in the sense that they do not, and cannot, provide all the information users may need to make involvement/relations decisions.

Dilemma 2: Sustainable development reports are far from perfect

Sustainable development reporting is still in its infancy and should be considered as 'work in progress'. Indeed, there is a lack of understanding and agreement on how to describe sustainable development performance. All parties involved should recognize the need for innovation – and the uncertainties, controversies and technological challenges that currently exist.

While many companies now have a good grasp of certain environmental indicators, they are still struggling to measure other indicators relating to the environment, people and society. The upstream and downstream aspects of a large range of environmental, social and economic dimensions add further complications.

Without a sound frame of reference, information and data reported by companies are open to a wide range of interpretation. Users as well as reporters should recognize this dilemma.

Norsk Hydro

The lack of an agreed framework for sustainable development reporting makes it necessary for companies to explain to readers what to expect from a report. Norsk Hydro underlines the following: "This year's report is divided into themes and provides data for the group and the most important business areas. It does not necessarily cover aspects in detail that may be of significance for players with a particular interest in specific plants, processes, activities or products. This type of information may be provided in local environmental reports and other publications. The contents and structure of the environmental report focus on the company's challenges, priorities and practice. The reported figures cover all the major production sites, including sites where Hydro is a minority owner, but has operator responsibility. Enterprises and joint venture companies where we have minority ownership but no operational responsibility are not included."

Norsk Hydro, Environmental Report, 2001
www.hydro.com

The usefulness of sustainable development reports

An essential quality of the information provided in reports is to be *readily understandable to users.* Users are assumed to have a reasonable knowledge of business, sustainable development activities and reporting, and be willing to study the information with reasonable diligence.

Sustainable development reports may be described as "showing a balanced and reasonable presentation of an organization's economic, environmental and social performance". In the world of financial statements, terms such as "true and fair view" or "presented fairly" are often applied (depending on legal frameworks and traditions).

The usefulness of the information is determined primarily by two qualitative characteristics: relevance and reliability. Both of these affect comparability, which is an important characteristic.

> Relevance

Information is relevant when it helps to evaluate a company's activities and to confirm or correct past evaluations. Information can be relevant because of its nature or its magnitude or both. In certain cases, the nature of items may necessitate their disclosure although their magnitude is not critical to the overall sustainable development performance.

A company should assess the materiality, i.e. the importance, of the information it discloses. Information is considered to be material if its omission or misstatement could influence users when making decisions about their involvement/relations with the company. Yet, to some extent, assessing materiality is subjective.

Dilemma 3: Sustainable development means different things to different people

Different users may have different preferences, interests and views on the importance of various aspects of sustainable development, hence different materiality criteria.

Furthermore, the importance of these aspects may differ depending on the geographical and cultural context and they may change over time.

For instance, some users are interested in local aspects of a company's operations while others are interested in global or regional environmental effects. Similarly, some users may demand more information on the environmental impacts of products after disposal while others want to know more about safety and health aspects during the manufacturing process.

Responding to such needs is further complicated by the great uncertainty related to the impact of many man-made substances on human health and the environment. However, scientific knowledge increases every day.

> Reliability

Information is reliable when it is free from material error and bias, and faithfully reflects activities and processes. However, most sustainable development information may be less than a faithful representation of what it claims to portray. This is not due to deliberate bias but to the inherent difficulty of either identifying the activities to be measured or of assessing the impacts of activities and processes.

Report producers thus have to contend with the uncertainties of estimations of past and future impacts on the environment, people and society, for example from certain emissions. This is why they should remain prudent and somewhat conservative in their estimates.

> Comparability

Users should be able to compare the sustainable development reports of a company over time in order to identify trends in its sustainable development performance and position. Although a far more difficult task, ideally users should be able to compare the reports of different companies in order to evaluate their relative performance and position.

Hence, companies should strive to measure and report on the impacts of similar activities and processes in a consistent manner over time. Ideally, all companies should do so in a comparable manner. This presents another dilemma.

Dilemma 4: A need for trade-off between flexibility and comparability

At this stage of developing a framework for sustainable development reporting, flexibility is necessary to allow for continued experimentation. In that case, the drive for greater comparability between companies should have second priority.

Report producers should have the flexibility to identify those indicators that are relevant to their specific circumstances and operations. They should also have the flexibility to choose how to report the information, for example by applying emerging industry-specific practices.

Reporting guidelines should strive not to increase the volume and complexity of the information requested but favor meaningfulness and relevance. Only a limited number of core indicators should be required. This will help avoid unnecessary difficulties for report producers to aggregate data and it may allow users to make certain comparisons. Furthermore, producers of sustainable development reports should not be required to disclose proprietary information or information that will diminish competitiveness.

Realistically, in the medium term, users should expect to be able to compare corporate practice on a general level rather than comparing specific quantitative indicators.

Balance between cost and benefit

The benefits derived from producing a report should justify the cost. Producing sustainable development reports may be costly or require substantial resources. Today, this is hard to justify for many companies.

Yet, there is a business case for reporting although the determining factors vary greatly from business to business and over time. Weighing cost versus benefits is substantially a judgmental process, and a company should develop its own approach, which often would include a gradual implementation over a number of years.

Dilemma 5: The cost of producing a report is a key factor

The balance between cost and benefit should be kept in mind by guideline and standard setters. The cost may not fall on those users who enjoy the immediate benefits. If guidelines are over-ambitious, the cost of the reporting process and the report itself may be prohibitive for some companies.

How to further develop a level playing field

The goal is clear. At some point in the future, standardization of sustainable development reporting requirements will be necessary to ensure relevant and reliable information. Today, however, if sustainable development reporting guidelines do not adequately address the issues and dilemmas raised above, they will not achieve the market penetration needed to harmonize reporting practices.

While a broad range of interested parties should participate in developing an appropriate framework for sustainable development reports, it is crucial that business, as a primary producer of sustainable development reports, remains involved. Including key stakeholders in the process will ensure that we achieve and maintain a generally accepted framework.

Learning by doing

Current reports are a rich source of ideas that can be used when developing detailed guidelines. They show what is doable today in the field of reporting. Without such 'sources of reality', detailed guidelines at best would risk being much ahead of time, and at worse wishful thinking making little impact.

Developing sustainable development reports, including defining indicators, is a 'learning by doing' process based on experimentation and evolution, not revolution. Guidelines should be derived from good practices in order to be widely accepted. If a specific indicator or way of reporting does not make sense from a practical point of view, it should disappear.

Detailed guidelines should not be developed without a sound framework. Otherwise, they risk being fragmented, incomplete and unfocused. Guidelines should be based on a clear and generally accepted objective for sustainable development reporting. Also, research from the academic world is needed.

Guidelines versus standards

Reporting guidelines should not appear to be 'standards', and 'standards' should not be developed prematurely. 'Guidelines' provide broad direction and offer recommendations while 'standards' give detailed requirements for how a report should be designed or executed.

Standards are appropriate when there is a consensus that they will provide relevant and reliable information about sustainable development performance. Setting standards, however, is normally very different from developing guidelines. It requires a broader and more rigid process in terms of stakeholder consultation, dialogue and decision-making.

At this point, the WBCSD believes that it is premature to develop standards. The timing of this should be carefully considered and may, for certain aspects, appear in only a few years while, for other aspects, it seems more realistic to assume an experimentation and learning phase of several years.

Societal, cultural and business context

In addition to the challenges, constraints and dilemmas associated with sustainable development reporting, any guideline and standard setters or regulators are influenced by the tradition, societal and business context in which 'regulatory' activities take place.

There are indeed significant differences between cultures, regions and/or countries and these should be reflected when developing guidelines. However, some of these differences, for example for financial reporting standards, are under pressure to be reduced, aligned or eliminated. One such major difference exists with regard to financial statements with the US Financial Accounting Standard Board (FASB) at one end and the International Accounting Standard Board (IASB) at the other. The IASB standards are based on general principles while the FASB are based on detailed rules.

General Motors

GM has used the Global Reporting Initiative (GRI) indicators to build its report. The report's online version includes a GRI sitemap, i.e. a cross-reference to the GRI indicators that allows readers to click on any information area within the GRI guidelines and go directly to the GM information that pertains to the link. This index is very comprehensive, yet user-friendly.

General Motors, 00-01 Sustainability Report: Achieving a sustainable balance through innovation, technology and partnership
www.gm.com

Good practice or leading the way

There are various approaches to setting standards. One approach is to standardize what is already 'good practice' in the marketplace. This is intended to help report users and producers communicate about the level of quality, applied methodology, approaches, thus helping to make interaction and transaction more efficient.

Another approach is to set a level, which interested parties believe is appropriate, but which the industry does not yet apply (often because it is a new area, for example ISO 14001 Environmental Management Systems). It will take some years before industry adopts a practice in accordance with such a standard.

The WBCSD believes that the second approach is feasible for sustainable development reporting standardization at some point in the future. Yet, as argued in this section, experimenting for some years with guidelines would be useful, realistic, and the best way to avoid confusion amongst report producers. We should not strive for 'mission impossible'.

Focus: GRI guidelines

The Global Reporting Initiative (GRI) was convened in 1997 by the Coalition for Environmentally Responsible Economies (CERES), in partnership with UNEP, to develop a common framework for sustainability reporting. The GRI intends to follow a process based on a broad and inclusive dialogue.

In April 2002, the GRI became an independent and permanent institution. The WBCSD is represented on the 14-member board of directors by its president, and individuals from three of its members: Deloitte Touche Tohmatsu, Deutsche Bank and Royal Dutch/Shell. Representatives from WBCSD member companies are also on various GRI technical committees.

The WBCSD has long supported the efforts of the GRI to harmonize sustainable development reporting (see WBCSD position on the GRI, Appendix 3), and wishes to ensure that its output works for business and its stakeholders.

The GRI issued its first *Sustainability Reporting Guidelines* in June 2000, with the objective to revise them on a two-year basis. The WBCSD expressed concerns about the 2002 version of its guidelines released in September 2002, and also recommended to the GRI to continuously improve due processes for gathering and incorporating comments in future guideline revisions.

Concerns with the 2002 version dealt in particular with the level of prescriptiveness, complexity and detailed 'one fits all' indicators. The council recommended that indicators should have a clear link to (i.e. demonstrate how they pertain and lead to) sustainable development, and appropriate caution should be given to the disclosure of proprietary information.

Guidance on
sustainable development reporting

The purpose of this section is to support companies, both the initiated and the uninitiated, in their reporting efforts. Based on practical experience from WBCSD member companies, a step-by-step approach to developing a sustainable development report is presented here. Companies can also use this guide as a checklist against their own practices.

A more detailed version of this guide is available on the WBCSD's website (www.wbcsd.org) as part of the 'reporting portal'.

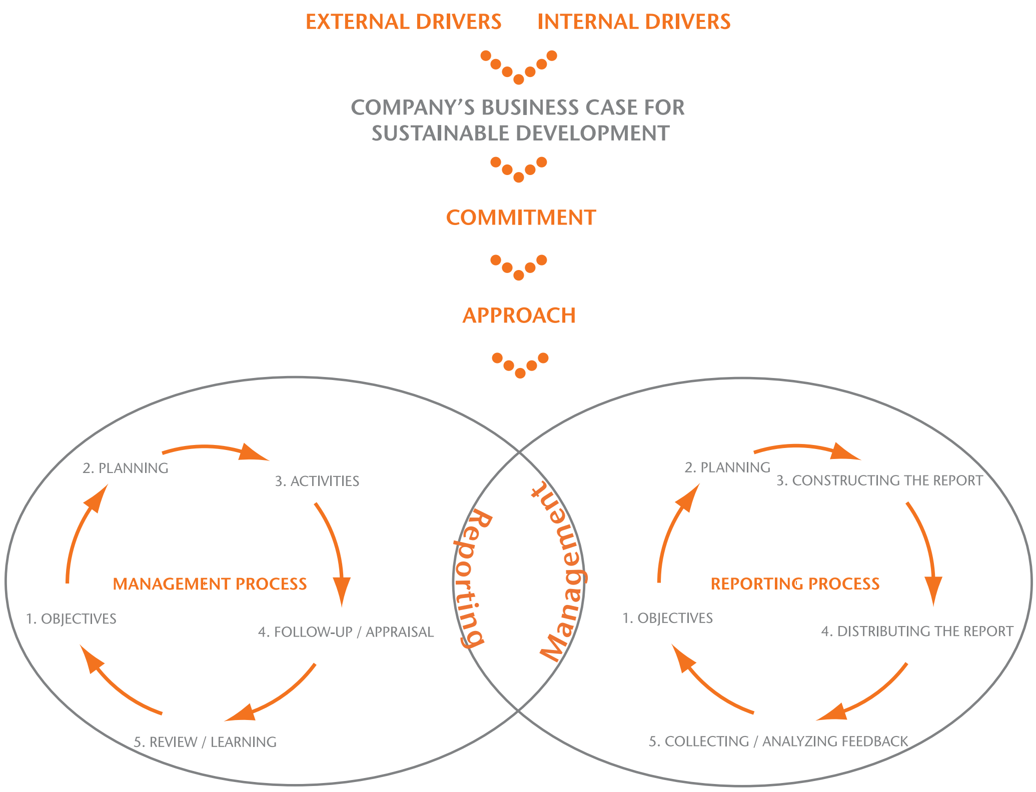
> "Within the company, our practice of reporting publicly is an important stimulus to achieving excellence in environmental management. Public accountability is not only a discipline for management and staff, it also builds a company culture in which environmental considerations achieve increased focus and higher priority."
>
> *Hugh Morgan*
> *Chief Executive Officer, WMC*

Building the commitment

Just embracing the general concept of sustainable development is not enough. A company should first appraise its situation, determine its strategic objectives, define its stakeholders, and clarify its vision and values. Based on this, it can then define its own business case for sustainable development.

Yet, a company's commitment to sustainable development will not be effective unless it is made operational. In order for this to happen, top management has to communicate its commitment internally and externally. Internally, this often means developing incentives to get business managers and employees involved in the issues. In that case, sustainable development performance needs to be integrated into the overall management reward system. Externally, as already argued, a sustainable development report is an important tool to provide a periodic status report on achievements.

Toward an integrated management and reporting process



Selecting the approach

A reporting process is part of an overall management system and should lead to improved corporate performance.

Experience from WBCSD members shows that only a few companies start with an integrated approach including both management and reporting. About half of the companies start by developing their management process (by incorporating sustainable development objectives into management and information systems) and about half by developing their reporting process (by communicating with internal and external audiences).

Differences in approach are largely based on a company's culture and external factors such as the regulatory climate and industry sector. Some companies prefer to be in 'total control' of their sustainable development information and data before they begin communicating externally about their objectives, performance and value creation. Others choose reporting to drive internal transformation or because the external pressure is so strong that they feel compelled to report even before they have built up fully adequate management processes.

Whatever the starting point, the end-result should be an integrated management and reporting process as this integration will create real value. Information in itself does not lead to action or a change of behavior unless it is relevant and connected to management systems.

"The environmental report helped to strengthen and develop the company's overall data management system. It actually drove the development of data. Data which was originally produced for the report was fed into the management system."

Rio Tinto

We live in a 'show me' rather than 'tell me' world in which accountability is demanded of those in power. We accept that. Indeed we look forward to equal acceptance of the principle by all those with influence in society whether companies or governments, whether trade unions or NGOs. But there are two important points which I would like to make on this subject.

The first is that from a company's perspective, reporting and verification are not the next step after pronouncement of a policy. After policy development comes implementation; next, comes training where it is required and then internal reporting systems. External reporting and verification is the final step for those of us in the world of converting words into action.

Secondly, let us all be clear about the reason for openness and transparency. It is to do better by ensuring that mistakes are not concealed but learnt from, and by comparing actual performance with benchmarks of improvement.

Rio Tinto, Corporate social responsibility: from words to action, 2001
Statement by Sir Robert Wilson, Chairman, Rio Tinto
www.riotinto.com

Management process

The management process relies on five steps.

First, the company should define its **overall objectives** for sustainable development, based on its specific business case and in line with its vision, values and business objectives. These should be backed up by strategies and policies to guide future activities.

Second, during the **planning** phase, the company should determine which activities are needed to fulfill its overall sustainable development objectives, strategies and policies. The resources required to perform these activities, such as the implementation of management and information systems, should be allocated. Furthermore, targets and indicators for follow-up should be included.

Generally, it is not expedient to decide on all targets at top level. The key is to set targets at site, entity, corporate and group level. This can help to develop awareness across functions and create enabling conditions for initiative and innovation. There is also a need to set up monitoring systems to track indicators and performance that have not been recorded before.

Third, the **activities** needed to fulfill the operational planning should be integrated into the business plan and performed accordingly. Some companies may choose to have external bodies certify their management systems to ensure that activities are performed in accordance with a given standard, for example, ISO 14001 and SA 8000. This can be a powerful driver for improvement.

Fourth, the **follow-up and appraisal** of activities should be in line with the company's stated objectives, targets and key indicators. The purpose is to integrate sustainable development activities into the company's normal operations and management processes.

The follow-up and appraisal phase allows the company's management to assess the results of its sustainable development activities based on internal indicators formulated during the planning phase. The results should be incorporated into the reporting process.

Fifth, during the **review and learning phase**, a company's management should ask the following questions. What went right? What went wrong? Where is further action needed? Answers to these questions will help develop and continuously fine-tune the management process in order to achieve the overall objectives and targets related to sustainable development.

Reporting process

External reporting of results may seem like a simple exercise in transparency but it is more than that. In fact, it gives management an additional opportunity for improvement, through readers' reactions, criticisms and suggestions. Considering stakeholder views also helps to shape strategy, goals and objectives. All the inputs from direct stakeholders should be carefully reviewed as part of a management learning process to adapt and fine-tune the sustainable development objectives of the company.

The reporting process comprises five main steps:

1. Defining the reporting objectives
2. Planning the report
3. Constructing the report
4. Distributing the report
5. Collecting and analyzing feedback

At each of these steps, several questions should be considered and the reporting organization should develop its own answers. Reporting principles must support transparency, credibility and accountability as well as ensure the relevance, reliability and clarity of the information and data. The GRI guidelines offer detailed guidance to step 1, and parts of steps 2 and 3.

•••• **"Identify the demographics of the target audience, determine our key messages to specific audiences, determine the desired action by the target as a consequence of the communication, etc. Then it will become clear which is the appropriate medium to catch the attention of the stakeholder or to best convey our message. This is normal communications 'science'."**

Step ❶

Defining the reporting objectives

What is the overall purpose of the report and what are you trying to achieve? Is it meant to stimulate the management process, to communicate achievements or to improve reputation?

Who is the audience? You need to analyze the position of your company in relation to various stakeholders and target groups in order to select the key ones. The structure and the content of the report should reflect such decisions.

Which issues do you want to report on? You should choose a report type based on the most relevant issues for you. Broad types include corporate social responsibility, environmental reporting, sustainable development reporting or health, safety and environment. Companies tend to report on issues for which they have a sound knowledge and the necessary expertise. New issues take a longer time to be reported upon as no standardized parameters or indicators exist to gauge performance and no data gathering system is in place.

How elaborate should the report be? You need to decide what your ambitions are, from producing a short and simple publication to a sophisticated stand-alone report. Yet, in some cases, as the project develops, the end result may be different from the original intent.

How will the report be published? You may choose to publish the sustainable development report as a stand-alone report or to integrate it into the annual financial report. Producing a single report encompassing economic, environmental and social considerations may demonstrate that all three areas are considered holistically by the management. On the other hand, integrating a summary of your sustainable development report in the annual financial report may justify the importance that management attaches to sustainability issues.

Can you use experience from other reporting processes? Annual financial reports have been published for decades. Some countries also have a tradition of social reporting, and many companies have been reporting internally or externally on environmental achievements within their ISO 14000 systems or EMAS registration. Companies should look at existing data gathering, information systems and reporting processes that can be used to save extra effort.

Which reporting guidelines/codes of conduct should you follow? Sustainable development reporting is a relatively recent practice and there is not yet a clear and widely accepted set of guidelines. You may use the Global Reporting Initiative (GRI) as a baseline, and depending on your circumstances, resort to other sources such as the GHG Protocol, the Global Compact and the SA 8000 norm.

What sustainable development information should you report? Guidelines give directions as to what to report. Yet, it is up to each individual company to select the information and data most relevant to its circumstances and operations. Furthermore, some parameters might be considered as confidential and not to be communicated externally. A good balance should be struck between what information the company is willing or able to provide and what stakeholders want to know. The information stakeholders demand may be categorized into what is their ‘right to know’, what they ‘need to know’ and what is ‘interesting to know’.

What is the right format for reporting? This varies according to the audience. Some stakeholders want a traditional printed report, which is the most common practice. However, companies are experimenting with alternative formats including CD-ROMs and the Internet. A CD-ROM can present very large amounts of information in an attractive way. The Internet enables a business to reach a broader audience in an interactive, faster and cost-effective way. It may also allow for some elements of real-time reporting. NGO forums and dialogues, with local communities and even employees, can further supplement reporting efforts. Using various reporting formats and channels thus allows a company to reach out to its target audiences in different ways.

•••• **“The use of high tech means could exclude some stakeholders as they may not have either the right hardware or the right software to access the information.”**

Should stakeholders participate in the reporting process? Although still a marginal practice in most companies, there is value in engaging stakeholders in the process of evolving a report, rather than just validating or seeking feedback on the end product. Making stakeholders aware of the questions asked (and resulting information gathered) at each stage of the process, may help to raise their understanding as well as fulfill the reporter's transparency efforts. The stakeholder's voice may also be important when it comes to deciding upon the type of report to be published.

•••• "We are guided in our reporting efforts by an advisory group consisting of a former head of an NGO, an indigenous council, a green accountant and a young radical environmentalist as well as business representatives."

What is the reporting business entity? What are the reporting boundaries? You may choose to report on company sites only or to include other companies in which you have a majority participation. You may even decide to include your suppliers and customers. Current practice is almost exclusively to stay within the boundaries of the reporting organization but, in the future, the reporting scope may well expand to include significant parts of the value chain. This will represent a new challenge in terms of reporting on the upstream and downstream issues and impacts (suppliers, customers and products or services). It will also require a great deal of background research to ensure that you are not reporting on your upstream or downstream value chain in a misleading or illegal manner.

What accounting principles should you follow when disclosing information and data? Principles must support transparency and ensure the relevance and reliability of the reported information and data.

In order to develop a clear and credible report, companies should develop their accounting principles, based on recommendations from appropriate institutions, and follow them when collecting, aggregating and disclosing their sustainable development information. Yet, not all sustainability data can be collected and/or collated according to accountancy protocols. This is particularly true for reporting on intangible assets.

Step 2

Planning the report

Who is responsible for the report? There are a number of steps in producing a report: defining the general content and structure, gathering the relevant information and data over the past period, writing the report and selecting the illustrations (pictures, graphs, etc.). It can be the task of one department or the joint effort of several (usually environment, human resources, communications and finance). Also, who is the 'sender' of the report? For example, is it the CEO, the EHS manager or the board?

Will you use outside suppliers? Who is going to write, lay out and print the report? Are you planning on translating the report? There are various possibilities, ranging from performing parts of the process in-house to using outside expertise. This depends upon a company's resources and there is no one ideal solution. Whatever the case, these decisions need to be made at an early stage of the planning phase.

Will the report have a general theme? Once the objectives have been clarified, a general theme can be chosen for the report, if appropriate. The report structure, including headings and sections, is then planned.

How should you report on the value created by sustainable development? Value creation can be described in terms of increased financial value, decreased levels of risks and enhanced image and brand name. It is usually easier to provide a qualitative description than a quantitative evaluation. Yet, attempting to assess how much sustainable development contributes to brand value can back up the qualitative description.

Novo Nordisk

In order to account for impacts and activities at community level, Novo Nordisk's eight largest production sites have issued individual reports in local languages on their environmental and social performance. These site reports have also been translated into English in their online version.

Novo Nordisk, Reporting on the Triple Bottom Line: dealing with dilemmas, 2001
www.novonordisk.com

What sustainable development data should be measured, collected, analyzed and reported? Each company has to make decisions on what data to collect and how to report it. This may require the development of new internal management processes and must be well planned as it usually requires several years to be fine-tuned.

Where is sustainable development data collected from? Existing information systems may provide some data already. The more mature the system, the more reliable and rigorous the data tends to be. You may, however, have to develop dedicated systems, which can be expensive and time-consuming.

"Data is collected monthly but only compiled for reporting purposes annually. Some of the data collected monthly is used by management in their monthly business performance review activities."

When is sustainable development data collected and analyzed? In general, data is periodically reviewed within the confines of normal information systems, and systematically checked in the month preceding the publication of the report. Experienced companies tend to start analyzing the annual data in the quarter preceding the release of the report and then update this result with the latest data.

How do you ensure data quality and internal controls? The first step is to ensure that processes are in place to collect and measure sustainable development data. Then, internal auditors should also perform controls.

Who is going to validate the report? The validation process of the information, data and conclusions presented in the report can be long and painful if responsibilities are not clearly established beforehand. In most companies, the report has to be approved by top management. Mentioning this approval process in the report enhances its credibility.

Will the report be assessed by a third-party? There are different possibilities. Whatever form of assessment is chosen, it normally benefits from being planned well in advance of the publication of the report.

Unilever

Unilever provides a summary of its environmental performance over the last five years (1997-2001) and its five-year targets to 2006. But in order to make reported data as transparent as possible and avoid misinterpretation, each key performance indicator is described, including how it is used by manufacturing operations for both reporting purposes and for setting future performance targets. Importantly, the explanation includes an objective discussion of the scope and quality of the reported data.

Unilever, Environmental Performance Summary Report, 2002
www.unilever.com

STMicroelectronics

In its 2001 environmental report, STMicroelectronics moved a step further to reporting on the environment, and included, for the first time, a short review of social issues. The company outlined its approach to managing individual performance and looked at its contribution to local communities and to the wider society.

The company reported on its patent record as one measure of creative success. Inventions by its employees produced, on average, two new patents every day. In 2001, ST filed 636 patents giving a total of some 20,000 patents issued or pending worldwide, covering over 11,000 inventions.

The company also elaborated on the range of career opportunities it offers: 104 types of job functions ranging from engineering and integrated circuit design to R&D, product development, marketing and sales, making it the largest job provider in its sector.

STMicroelectronics, Corporate Environmental Report, 2001
www.us.st.com

Step 3

Constructing the report

How should you structure the report? This should be determined after carefully considering two constraints. On the one hand, you have to define the objective of the report and ensure that the information and message you want to convey are in line with your company's overall communications strategy. On the other hand, you have to evaluate stakeholder expectations and their information requests. Only then can you structure the report and decide which information goes where. There may be several iterations during this phase.

There are often considerations as to whether a company should change the report structure and content focus from year to year. A 'marketing/communications approach' will favor a 'renewal' at each season whilst a 'reporting approach' modeled after financial reporting will emphasize continuity and prediction. A reporting approach should be used both to build an overall theme and continuously improve the report structure.

How should you manage stakeholder expectations, demands and viewpoints? The views of stakeholders should be listened to, communicated and as appropriate commented upon in the report. Stakeholders may demand specific statements and data on how the company is dealing with a certain issue.

Furthermore, you should decide how you want to report on your involvement with stakeholders and how they influence the way your company manages sustainable development issues.

How should you collect, aggregate and analyze data? The earlier the data can be aggregated, the more time can be spent analyzing the company's performance. This analysis should be an integral part of the management process, and therefore, managed on an on-going basis.

Some information is proprietary or covers aspects of significant uncertainty such as the risks linked to soil pollution or to past product failures for which the company could be blamed. When disclosing such information, companies must comply with corporate accounting and disclosure regulations but they must also meet stakeholder expectations that arise from their corporate values and principles.

How should you make sustainable development information easy to understand? Publishing a whole set of sustainable development information covering all aspects of the company's activities is not enough. It may be useful to build the report around a theme that is closely linked to the company's business objectives and values. The balance should be struck between a highly technical report and an easy-to-read, appealing report, depending on the audience.

Some companies compile most data and figures in an appendix at the end of the report, allowing for an easy read while still providing technical information. In the case of a web-based report or a CD-ROM, the challenge is to build a robust storyboard enabling an easy navigation across many topics and access levels. You may want to write briefly about one topic while offering very detailed information on another.

How to perform external assurance of the report? The integrity and performance of corporate management are a pre-requisite to building trust among stakeholders. As a means of enhancing a report's credibility, a growing number of companies are resorting to independent parties to perform an assessment of their reports. No standardized and generally accepted approach yet exists and regional differences prevail, but a practice is emerging mainly in Europe.

A typical engagement will cover sub-components of the report and/or of the process of preparing the report. Yet, when looking at independent statements, uncertainty and a lack of clearance exist among report producers and users as to the meaning, scope and work performed by the assuror. The key factors to consider when selecting an assuror are independence competence and responsibility. Further, companies should also balance costs versus benefits as assurance may give further credibility but at a considerable cost.

The GRI guidelines provide some general guidance on the subject. Further, AccountAbility, in its AA1000 series on assurance, has started developing more extensive guidance with the help of multiple stakeholders, including key players from the assurance providing industry, like auditing firms and other consultancies.

Step 4

Distributing the report

Who should you send the report to? This has normally been decided at the beginning when the audience of the report is selected. Compile distribution lists at both corporate and local levels.

Typical recipients are customers, suppliers, the media, policymakers, NGOs, asset managers, financial analysts, rating agencies, government representatives, local associations, etc. Employees should also have access to the report, either the printed version or via the company's Intranet. It is a powerful way to raise their awareness about sustainable development and has an impact both on corporate culture (sharing common goals) and innovation (examples of good practices in the report will encourage creativity). Companies may also wish to distribute the sustainable development report together with the annual report to increase its standing.

•••• "The report is accompanied by a letter from our CEO and is supported by press releases."

How should you launch the report? In addition to sending out the report, there are several channels a company can use: annual general meetings, websites, press releases, press briefings, e-mailing and advertising.

Another effective way to promote the report is to enclose a summary insert in international magazines. Information and data from the sustainable development report can also be used during presentations made by the Investor Relations department and in speeches delivered by the CEO and the CFO.

Step 5

Collecting and analyzing feedback

How should you collect feedback? Feedback from internal sources is as important as feedback received from external sources and should be collected and fed into next year's reporting process.

A common practice for collecting external input is to include a reply card in the report that can be sent back with comments and questions to relevant managers in the company. Yet, the return is usually very low. A reply form can also be posted on the Internet. In the case of local workshops or meetings with important stakeholder groups, feedback will be more direct. Companies can also seek feedback from external bodies that rate sustainable development reports.

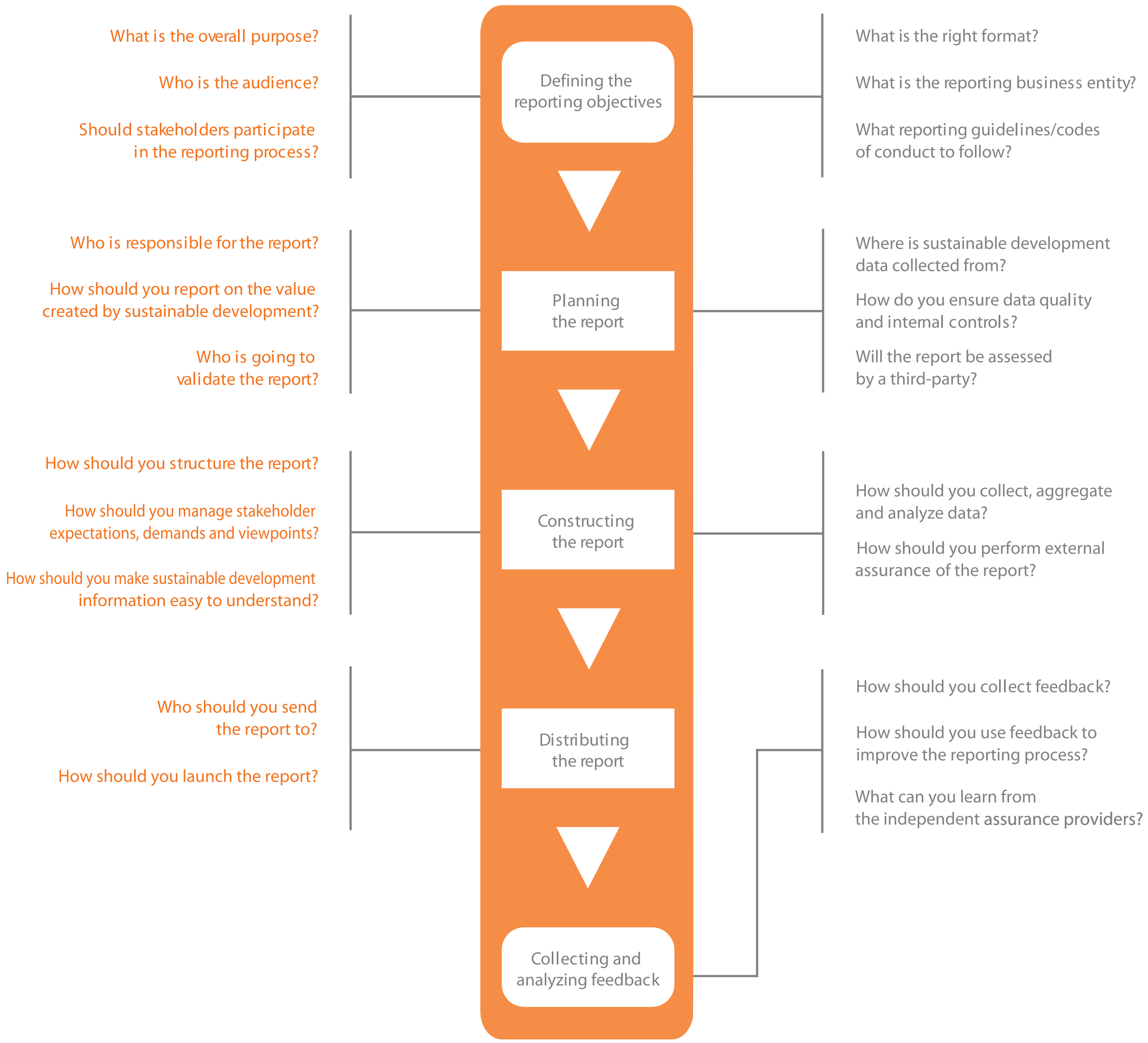
Last but not least, companies can also compare their reports with either those of competitors or companies known as 'good reporters' in order to improve their own report the following year.

How should you use feedback to improve the reporting process? All the feedback should be summarized and analyzed to serve as input for the next reporting process and to set new goals. The team responsible for developing the report should meet to discuss the pros and cons of the process with questions such as: What was done right? What might be done differently next time? What development is needed to gather and analyze data? What kind of information do stakeholders lack? The lessons learned from such discussions will then be fed into the company's internal strategy to guide future sustainable development activities.

•••• "When the report is launched, we send it out to the key stakeholders, and we inform the press and other companies."

What can you learn from the independent assurance providers? Assurance providers usually give feedback both on the report content and the reporting process. Information can often be found in the so-called 'management letter' submitted by the assurance providers to the company. Normally, also, a dialogue between the company and the assurance provider is valuable to provide input on how the business can improve both its reporting process and the way it collects, manages and analyzes sustainable development information and data.

A step-by-step approach to reporting: key questions



A portal for
sustainable development reporting

In late 2002, a new online service called the ‘reporting portal’ was posted on the WBCSD’s website (www.wbcsd.org). It brings together examples of how WBCSD members are reporting on sustainable development aspects and it will be kept updated as new reports become available.

In this section, we highlight examples of reporting practices in order to guide companies in their sustainable development reporting endeavors. We also provide graphic examples, drawn from the surveyed reports, to illustrate our purpose.

How the portal is structured

The reporting portal can be searched in different ways depending upon the needs of the user. The user can look for reporting practices by company name or by industry sector, or search by information criteria.[6] There are four categories of information criteria:

1 • Company context: information on the context in which the company operates.

2 • Governance: information on how the company tackles sustainable development issues.

3 • Performance: information on the key performance indicators specific to the company's sustainable development activities.

4 • Assurance: information on the types of assurance processes used by the company.

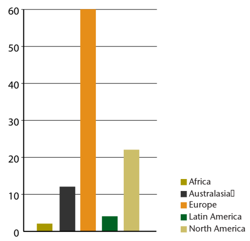
The objective of the new portal

Given the fact that reporting practices in sustainable development are continuously evolving, the portal should be considered as a dynamic list of practices.

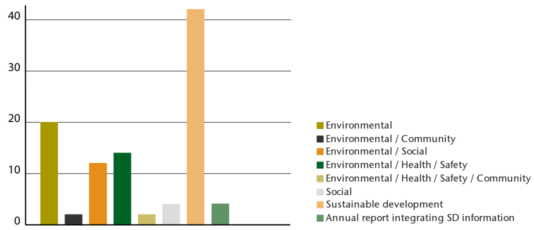
The purpose is to provide readers with an understanding of the issues companies are currently tackling in their sustainable development reports and the kind of information they are presenting. The portal is not an attempt to standardize sustainable development reporting. It is a facility that companies can use in order to generate ideas and find inspiration on what information to include in their own reports.

The reporting portal provides a picture of current reporting practices by WBCSD members. Our initial review included almost 50 reports from 14 sectors ranging from mining to service industries. Of all reports, 72% were printed, 18% printed and posted online, and 10% only available online. The companies selected were predominantly based in Europe and North America (see charts on the right). In future, as more reports are added to the portal, the coverage will become more global and include practices from other business sectors.

Geographical origin (in survey)



Breakdown of reporting types (in survey)



[6] These are based on information from:

"AA 1000 series", www.accountability.org.uk
"The Global Reporters – The 2000 Benchmark Survey", www.sustainability.com
"GRI Sustainability Reporting Guidelines", www.globalreporting.org
"OECD Principles of Corporate Governance", www.oecd.org
"OECD Guidelines for Multinational Enterprises", www.oecd.org
"WBCSD, Measuring Eco-Efficiency", www.wbcsd.org
"European Environmental Reporting Awards, Report of the judges 2000", www.acca.co.uk
"Fédération des Experts Comptables Européens, Toward a generally accepted framework for environmental reporting", www.fee.be
"The Global Compact", www.unglobalcompact.org
"The EFQM Guidelines" European Foundation for Quality Management, www.efqm.org
"KPMG International Survey of Environmental Reporting", www.kpmg.com
"Deloitte & Touche checklist for the development and evaluation of voluntary reports" and "Deloitte & Touche Sustainability Reporting Scorecard", www.deloitte.com
and WBCSD members' sustainable development reports

1.1 Top management commitment

Top management commitment appears as:

- Specific CEO statements are included in almost every sustainable development report.
- More ‘sophisticated’ reports contain a company-specific definition of sustainable development while others endorse an external definition, usually the Brundtland one (see page 6).
- Information is sometimes given on how the commitment to sustainable development is being supported by company values, principles and codes of conducts.
- Information is supplied on what the company plans to achieve, i.e. its overall sustainable development objectives, through its activities.

How commitment to sustainable development is being supported by general company values, principles and codes of conducts. The framework shows how the group’s core values are communicated to the business units and taken into account to define business principles and codes as well as managerial responsibilities at the business unit level.

1 COMPANY CONTEXT
2 GOVERNANCE
3 PERFORMANCE
4 ASSURANCE

A sustainable development report can only be understood if information is given on the context in which the company operates. Relevant information includes: top management commitment, company profile, impacts and reporting context.

1.2 Company profile

Information on the company’s structure and its sphere of operation usually covers:

- Activities, locations, lines of business, facilities and milestones.
- Production and service performance, net sales, market share and workforce.
- Significant changes in size, ownership, mergers, structure and achievements.
- Position in a specific industry sector or marketplace.

1.3 Impacts

Reports reflect the business contribution to sustainable development and how the company is managing potential negative impacts and exploiting emerging business opportunities. Information usually covers:

> How processes, products and services have an impact on society and the environment.

> Information on how and why certain sustainable development aspects have been identified and evaluated.

1.4 Reporting context

The reporting context explains why and how the company has developed its sustainable development report. It can address:

> Why is the company reporting? What can readers and stakeholders expect from the report? What is the specific business case for sustainable development and for reporting?

> What is the scope of the report, which business entities and which sustainable development issues are covered and for which period? Originally companies focused their reporting on the parts of the operations they control. The trend, however, is toward increased reporting along the value chain.

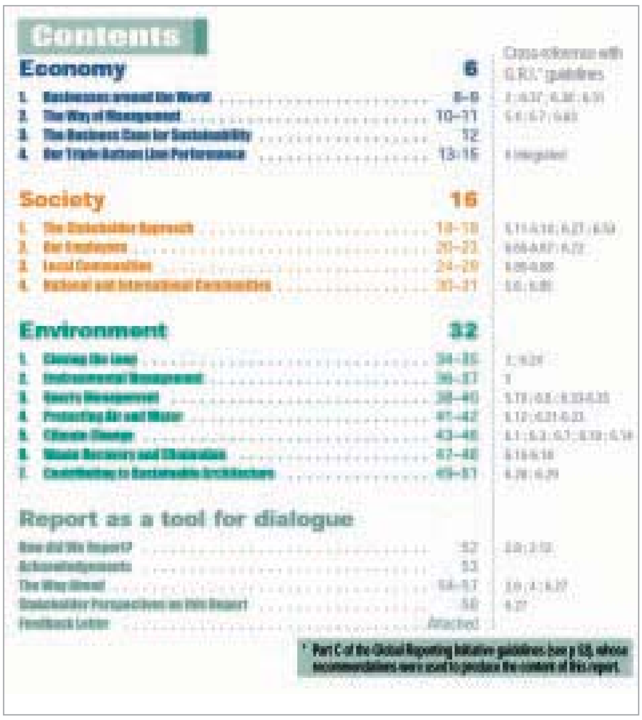
> Information is also provided on guidelines applied in the reporting process. This includes mentioning whether and to what extent the report follows specific guidelines, such as the Global Reporting Initiative (GRI), or meets a compulsory or voluntary requirement.

☑ TOP MANAGEMENT COMMITMENT

☑ COMPANY PROFILE

☑ IMPACTS

☑ REPORTING CONTEXT



> Companies also report on where users can find additional information on their reporting performance (Internet or contact persons) and how feedback on the content of the sustainable development report can be given.

Guidelines applied in the reporting process. Next to each element of the table of contents, this company refers to the indicators recommended by the Global Reporting Initiative (GRI). The company also states that the content of the report was inspired by the GRI.

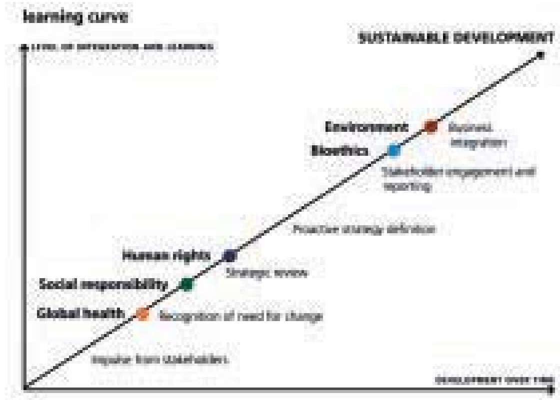
2.1 Corporate governance

Corporate governance encompasses the division of sustainable development roles and responsibilities within the company as well as the design and implementation of response strategies. The practice of reporting on how sustainable development relates to a company's overall governance system is still uncommon. The statements found in the reports show the following:

> Diagrams are often used to show a complete organizational structure and how the business deals with sustainable development issues. Diagrams are sometimes supplemented with descriptions of the company's approach to corporate governance and issues related to sustainable development.

> Companies list the responsibilities of various parts of the organization with respect to sustainable development and, in a few instances, descriptions are included on how the board of directors manages aspects of sustainable development.

> A few reports provide a more detailed description of the complete governance structure with regard to relationships with shareholders, the procedures for appointments to the board, and the division of responsibility between the chairman and the chief executive.



Description of a company's sustainable development position. This chart illustrates progress made by the companies of the group on five sustainable development issues. It provides a picture of the level of integration and learning of these topics throughout the group.

1 COMPANY CONTEXT
2 GOVERNANCE
3 PERFORMANCE
4 ASSURANCE

Achievement of sustainable development objectives and targets depends on the organization's effective governance of related issues. WBCSD members report on governance in terms of: corporate governance, strategies, policies, management systems and stakeholder engagement.

2.2 Strategies

Strategies are put in place to ensure that sustainable development issues are identified and that the necessary action is taken. WBCSD members report on strategies in the following ways:

> Identification of top priorities related to sustainable development. Very few companies actually address the connection between their sustainable development strategies and their overall business strategy. However, some try to exemplify how the business process supports environmental and social innovation.

> How company management makes strategies operational is usually dealt with by describing how different tools and systems work.

> Risk management and business opportunities: companies report on how they have benefited or expect to benefit from their involvement in sustainable development activities.

Sustainable development management framework

A practical tool for embedding sustainable development into decision making

Making strategies operational. The roadmap shows the strategy and timetable for embedding sustainable development into the way the organization does business. A sustainable development management framework is described as a tool for achieving this.

2.3 Key sustainable development policies

Information is given on policies that guide companies' activities in pursuit of sustainable development:

> Brief description of key sustainable development policies. The trend seems to be toward presenting 'new' or 'revised' policies in the report while 'older' policies are referred to and posted on the Internet.

> Some companies also try to describe the link between performance and the implementation of sustainable development policies.

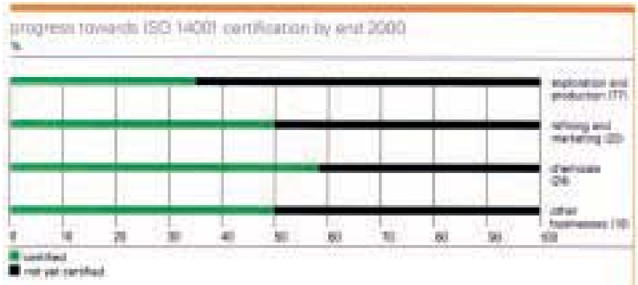
2.4 Management systems

Management systems related to sustainable development are described within the company's overall management structure. How they are integrated into the company's business process is also mentioned:

> Most companies report on their sustainable development management systems or instruments.

> Fewer companies describe how sustainable development management systems are integrated into the overall business process and the benefits derived from this.

Information on sustainable development management systems. For each business area, a bar line represents the percentage of sites already certified with ISO 14001.



Numbers in brackets are total numbers of sites working towards certification or already certified.

- ☑ CORPORATE GOVERNANCE
- ☑ STRATEGIES
- ☑ KEY SUSTAINABLE DEVELOPMENT POLICIES
- ☑ MANAGEMENT SYSTEMS
- ☑ STAKEHOLDER ENGAGEMENT

2.5 Stakeholder engagement

Information on stakeholder engagement includes:

> Identification of major stakeholder groups and description of how stakeholder engagement is conducted.

> Information that has emerged through interaction with stakeholders. The approaches used and the level of detail vary greatly in the reports. Some companies are more specific, describing a wide range of efforts to find out stakeholder needs and concerns while others just list mechanisms used to gather information. In a few cases, information is given on how independent experts provide advice on current sustainable development trends affecting the company.

> Information on current partnerships with business and non-business stakeholders.

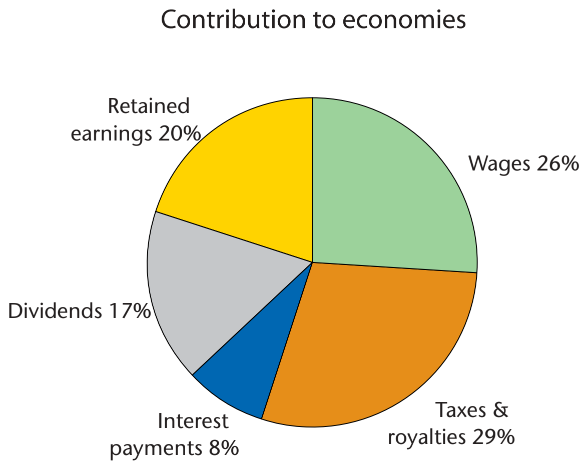
3.1 Economic performance

Sustainable development reports analyze economic performance as a contribution to sustainable development. This provides a broader outlook than the kind of financial figures presented in the annual report. The economic performance section usually includes:

> Financial performance summary: highlights of the company's financial performance.

> Objectives and targets: the relationship between the company's financial objectives and its environmental and social objectives is seldom discussed. Nor is much space given to the subject of value creation as a result of sustainable development activities.

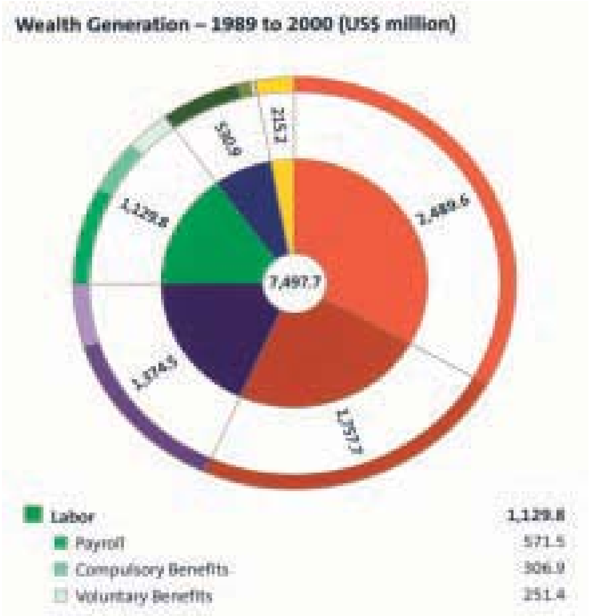
> Wealth distribution: information is often given on what share of the company's revenue goes to its employees and the communities and societies in which it operates.



This pie chart presents an analysis of the value added to the economy where the company operates.

1 COMPANY CONTEXT
2 GOVERNANCE
3 PERFORMANCE
4 ASSURANCE

Reporting on performance is crucial. The company should select key performance indicators that are specific to its sustainable development issues. Those used by WBCSD members in their reports cover economic, environmental, social and integrated indicators.



The wealth generation devoted to labor expenses is illustrated by means of a pie chart and includes payroll, compulsory benefits and voluntary benefits.

Employee benefits (in excess of the minimum statutory requirements)

(1) Proportion of Group companies offering these benefits in percent
(2) Total number of employees at these Group companies*

	(1)	(2)
Accident/disability insurance	93	88,500
Company pension schemes	82	86,500
Health insurance	76	79,600
Medical services through		
Group facilities	59	76,000
Flexible working hours		
(voluntary switch to part-time work,		
job sharing)	61	72,000
Annual bonus	47	62,500
Maternity/parental leave	46	71,000
Accommodation		
(company apartment/housing grants)	36	52,500
Rehabilitation program for addiction		
or illness	34	71,600
Child care		
(financial support for outside schemes)	17	62,600

* In some cases, these benefits are not available to all employees at the given Group company.

This table shows the percentage of the group's companies offering benefits and the number of employees receiving them. These benefits include health/accident insurances, pension schemes, flexible working hours, child care, etc.

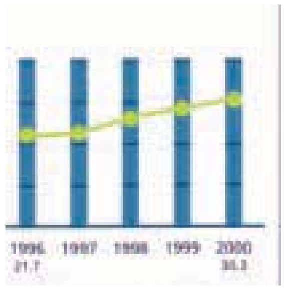
3.2 Environmental performance

Companies analyze and comment on environmental performance in their sustainable development reports. Particular trends and their underlying causes are explained. The environmental performance section can include:

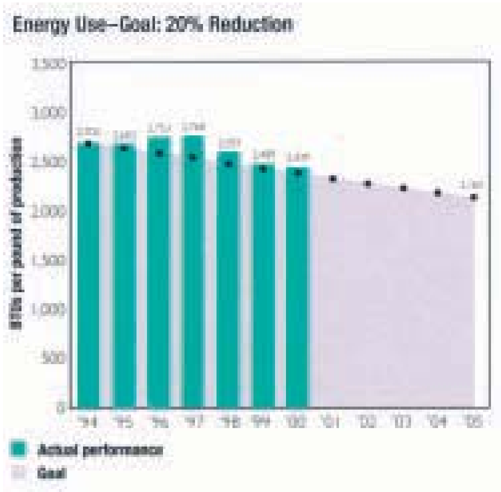
> Performance indicators: quantitative and qualitative information on environmental impacts of processes, products and services.

> Information on environmental objectives and targets is given as well as information on the extent to which previously established objectives and targets have been met.

> The results of environmental benchmarking are often presented, with a reservation on comparability as companies compile their performance data in different ways.



Next to each performance chart, reporters provide information explaining the evolution of results.



Environmental performance graphs include past and future targets so that readers can get an insight into the company's degree of success in the past.

☑ ECONOMIC PERFORMANCE

☑ ENVIRONMENTAL PERFORMANCE

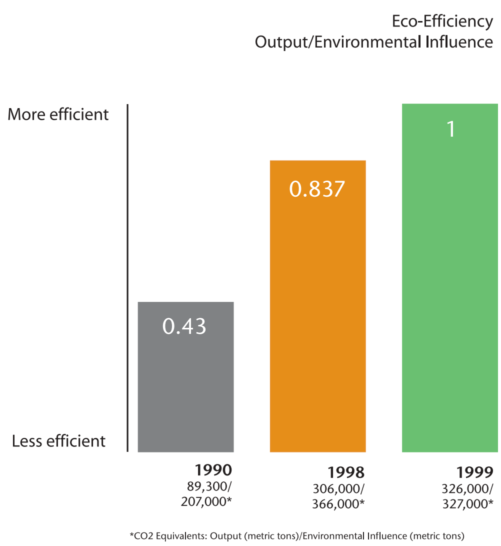
☐ SOCIAL PERFORMANCE

☐ INTEGRATED PERFORMANCE

> Compliance and incidents: incidents including breaches are frequently reported on. Information is also given on lawsuits in the form of number of prosecutions and enforcement notices reported during different periods.

> Environmental and financial data/performance: information is often given on fines incurred in relation to environmental incidents and on the financial outcomes of disputes. Information is also often given on the size of environmental investments. However, there are very few examples of companies reporting on the occurrence of contingent liabilities and the cost of running environmental departments. Information is very seldom presented on the financial benefits related to environmental activities or on other benefits whether they are tangible or intangible.

Indirect Greenhouse Gases (GHGs)



GHG emissions are shown as an eco-efficiency indicator in which the numerator is the production output (metric tons of product) and the denominator is the environmental load (CO_2 equivalent).

3.3 Social performance

Although reporting on social performance is still in its infancy, a growing number of companies are experimenting with social performance indicators and appropriate data collection procedures and protocols. The social performance section can include:

> Performance indicators: quantitative and qualitative information on social impacts of processes, products and services.

> Information on social objectives and targets. Though there are a wide variety of social parameters (suggested in different initiatives) that companies can report on, not many companies are using them. Companies choose to report on those social issues that matter to them. This decreases the possibilities of benchmarking and comparability.

The amount of money devoted to social investment by region and by theme over the last three years.

1 COMPANY CONTEXT

2 GOVERNANCE

3 PERFORMANCE

4 ASSURANCE

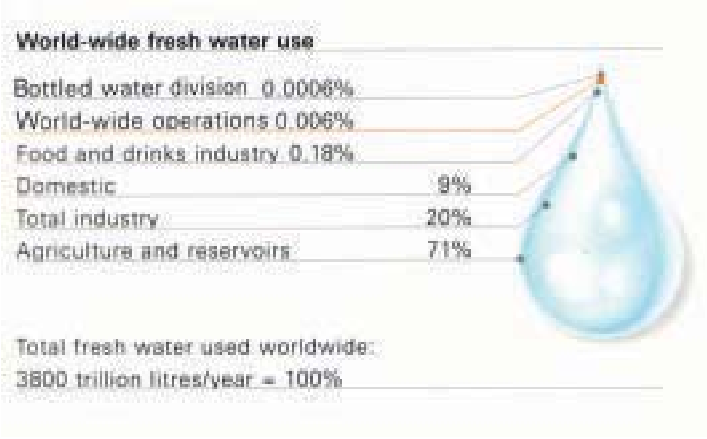
Workforce Diversity (percentage)	2000	1999	1998
Women in Management	19.1	22.3	21.1
Aboriginal Employees	0.9	0.8	0.8
Persons with Disabilities	1.6	1.5	1.6
Visible Minorities	6.5	6.4	6.5

This table shows the percentages of women in management, aboriginal employees, persons with disabilities and visible minorities. The evolution can be compared over the past three years.

3.4 Integrated performance

Companies are trying to measure their integrated performance in relation to their definition of sustainable development, and their own business case for sustainable development. There is, however, still a long way to go before the integrated performance indicators used by a few companies are reported on by companies in general.

> A few companies use indicators based on the eco-efficiency concept. In these cases, the environmental data is always assessed in relation to the production output or value creation.



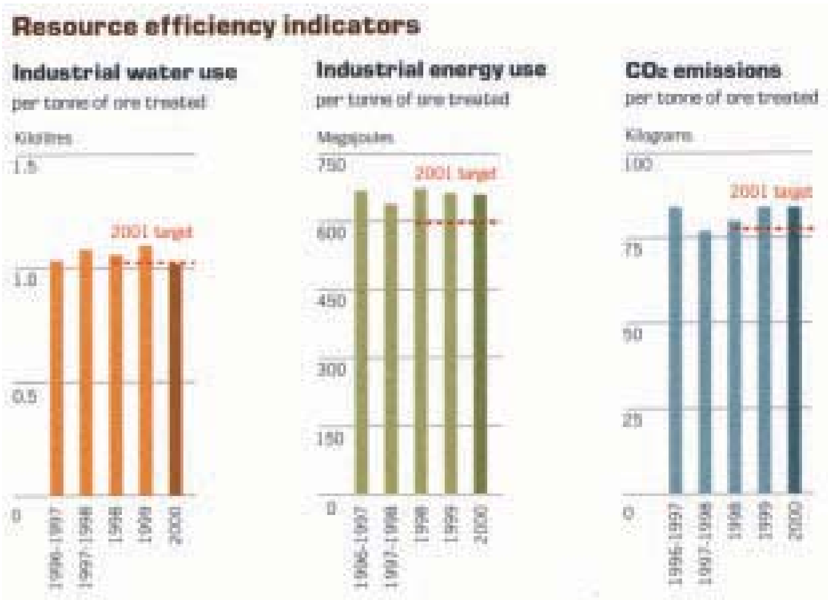
The company compares its total water consumption against that of the food and drinks industry, the world's domestic usage, the world's total industry and the world's agricultural usage.

☐ ECONOMIC PERFORMANCE

☐ ENVIRONMENTAL PERFORMANCE

☑ SOCIAL PERFORMANCE

☑ INTEGRATED PERFORMANCE



The resource efficiency indicators make the connection between the environmental load of operations (water use, energy use, CO_2 emissions) and production data (per ton of ore treated).

4.1 The scope of independent assessments

Companies seldom address the area of third party assurance in their sustainable development reports. Consequently, information on the assurance process is usually found only in the statement submitted by the external independent body. Information on the scope of the assessment can appear as:

- Information in a statement indicating whether a third party has performed a comprehensive review or a more limited review.
- Discussion of which type of information and data has been reviewed if not all.
- Notes on how site level data and consolidated group data have been reviewed.

Basis of the Review

Our review consisted of the following activities completed between October 2000 and March 2001:

1. Interviews with a selection of senior managers with responsibility for operations and functions such as safety, health and environment, human resources, internal audit, corporate communications and legal affairs.
2. Review of selected documents that have been used to communicate corporate expectations for core value delivery and performance reporting.
3. Review of documents received and reviewed by senior managers to provide them with assurance that risks and incidents are addressed and managed effectively.
4. Review of a selection of external media sources to provide a check on the scope and balance of issues addressed in the report.
5. Site visits to review non-financial to data reporting and selected business processes across.
6. Review of the processes and systems used to consolidate non-financial performance data from individual sites, across the business and regions to corporate and finally to the data in this report.
7. The review and challenge of all non-financial statements and assertions made in this report in order to substantiate its content.

More and more companies use third parties to assess the credibility, reliability and completeness of aspects of their sustainable development reports or of their reporting processes. Information found on third party involvement in sustainable development reports encompasses: the scope of independent assessments, external statements and other types of independent statements.

4.2 External statements

The external statement from the independent assurance provider indicates whether and to what extent the information presented in the report has been reviewed by an independent party. Areas covered in an external statement include:

- Purpose of review: in most statements, the assignment given to the independent assurance provider is clearly described.
- Scope of review: the assurance provider describes the actions performed in the review. This is important since there are no generally agreed procedures on the activities included in an independent engagement.
- Often the assurance provider refers to the most common assurance and auditing schemes (i.e. ‘auditing standards’ of an institute of chartered accountants, ‘AA 1000’ framework of AccountAbility, etc.) and other national professional standards.
- Methods and procedures used in the engagement: the assurance provider tends to describe the methods and control procedures used such as conducting a review, sampling supporting documentation, and interviewing staff responsible for compiling data and performing analytical procedures.
- Level of assurance: almost no statement includes a clear indication of the level of assurance expressed in the independent review. This type of information is in principle very useful but often hardly achievable in practice given the emerging status of sustainable development reporting.
- In a few cases, the assurance provider refers to criteria, for example the GRI guidelines, against which the sustainable development report or aspects of it have been evaluated.

4.3 Other types of independent statements

Apart from the conventional external reviews performed by auditing companies and technical consultants, assessments performed by stakeholder organizations were also found in a few reports:

> In one case, the local authority expressed its opinion on a sustainable development report after reviewing and auditing complaints. It focused on the company's data collection process.

> In another case, an independent consultancy firm provided an overall opinion about the company's reporting process and gave some recommendations about how to face reporting challenges.

> Another approach is to let an independent expert review the sustainable development report in order to help discover where changes and improvements should be made in future reports.

STATEMENT FROM SIMON ZADEK

This Statement focuses on the completeness and relevance of Novo Nordisk's Triple Bottom Line report, and on the company's underlying learning and capacity to work with longer-term, 'stretch' goals and targets. In the Internet report is a description of the Review's approach.

On substantive issues, significant advances have been made in the area of 'access to health'. Its approach reflects the company's fundamental business principles, builds on WHO's recommendations, and was accentuated and accelerated by the Danish debate following the legal case brought by the pharmaceutical industry against the South African government concerning intellectual property rights. Learning from this should in the future inform its overall approach to risk assessment and management. The company has further progressed its approach to animal care, deepening its engagement to include challenging and also productive dialogue with activists. Incremental progress has been made in environmental management and performance, and there is a renewed need to explore new opportunities and strategic directions. Considerable progress has been made in handling labour standards in supply chains, and the weight now given to this in supplier screening is to be commended. Also notable are further developments in the company's global approach to equal opportunities.

On accounting and reporting, the strategic dilemmas approach has proved valuable in exploring the link between values, governance, and strategy. The commitment to account for licensees, contractors, and suppliers is a welcome development. The greater focus on the crucial area of health-related impacts is a significant development, although the company might reflect on how best to satisfy growing demands from stakeholders for greater transparency about health-related R&D activities.

The report complies with the main GRI Reporting Guidelines, and the underlying accountability process has been consistent with AA1000 principles.

Overall, Novo Nordisk continues to be a leader in public reporting, and can sustain this by considering future developments in the following areas.

- Further development of reported long-term strategic goals and associated targets.
- Continuing this year's effective approach that reports performance in the context of strategic dilemmas.
- Annual reporting on progress in its 'access to health' initiatives.
- Reporting on how R&D policy and practice fits within the Novo Charter.
- Report on internal incentive and career development in relation to social and environmental policies and performance.
- Strengthening engagement with mainstream investment community about risks and opportunities associated with social and environmental performance.
- Extension of quality assurance process to all report-based corporate communications about social and environmental issues and performance.

London, 1 March 2002

Dr Simon Zadek

This statement offers an overview that seeks to provide stakeholders with some assurance of the relevance and completeness of the company's report and its underlying processes.

☑ THE SCOPE OF INDEPENDENT ASSESSMENTS

☑ EXTERNAL STATEMENTS

☑ OTHER TYPES OF INDEPENDENT STATEMENTS

Introduction

We have been engaged to perform certain control procedures on the BASF management systems and structures for Social Responsibility as described in the BASF Social Responsibility Report 2001 ("the Report"). The Report is the responsibility of and has been approved by the BASF Group management. The scope of our procedures was agreed with the management of the BASF Group. We based our approach on emerging best practice for the verification of sustainability reports and principles within international standards for assurance-related engagements.

Procedures

We interviewed corporate officials at BASF Group headquarters in Ludwigshafen, (Germany) and management representatives and employees at two selected reporting units BASF Antwerpen N.V. (Belgium) and BASF S.A. (São Paulo, Brazil) and we analyzed, at these locations, samples of documentation and information prepared for the Report, as presented to us.

- We analyzed BASF's Values & Principles, Codes of Conduct and Governance Structures to integrate sustainability into its operational business processes, as described in the Report on pages 12 to 15.
- We tested BASF's adoption of human rights principles and adherence to fundamental international labor standards within the company as well as in the relationship to suppliers and subcontractors, as described in the sections "Human Rights" and "Markets".
- We analyzed the procedures applied to collect data from reporting units for the sections "Employees", "Community" and "Human Rights" of the Report, on the basis outlined on page 68. We assessed whether the figures collected this way are appropriately reflected in the Report.
- We tested the 2001 figures reported from the two reporting units listed above, on a sample basis, to the source documentation supporting the submitted figures.
- We compared the information in the Report to corresponding information in the BASF Group's Financial Report for 2001.

The work performed does not constitute an audit and, therefore, we do not express an opinion that the description of the systems and structures and the figures presented are accurate and complete.

Findings

Based upon our work, we find that BASF, on a corporate level, has established proper and relevant management systems and structures for managing social responsibility issues in such a way that it is able to comply with the internationally recognized fundamental labor standards. For the two reporting units named above, these systems and structures as well as BASF's Values & Principles are translated into local structures and programs and there are organizational steps taken to fulfill the respective requirements.

We also find that BASF has applied detailed and systematic procedures for the purpose of collecting 2001 figures from the reporting units for inclusion and appropriate reflection in the Report, as specified. Internal control procedures have been established and applied at Group level to check such reported data. For the two reporting units identified above, submitted figures were consistent with the source documentation presented to us. The information in the Report is further consistent with corresponding information in the BASF Group's Financial Report for 2001.

Ludwigshafen, May 29, 2002

Deloitte & Touche
Global Environment & Sustainability Services

Preben J. Soerensen
State-authorized public accountant (Denmark)

This statement provides an assurance engagement of the company's management systems and structures for social responsibility.

Looking to the future

> “Sustainable development reporting is fundamentally a sound business activity. Today, it is mainly driven by society’s demands for corporate accountability and transparency. Yet, as the public and business acknowledge the value of annual reporting on corporate performance, this may increasingly be supported by governmental regulation throughout the world. Responsible corporate conduct, accountability and transparency help companies to be better managed, attract talents and maintain their licence to operate.”
>
> *Martin Scicluna*
> *Managing Partner, Global Strategic Clients, Deloitte Touche Tohmatsu*

The emergence of sustainable development reporting is not only a response to the increasing internal and external demands placed on companies to be transparent on their performance and achievements in this field. It is also setting the scene for the future of business management.

Indeed, leading companies will be expected to be one step ahead on current issues and to behave as corporate citizens with all that this entails. Companies will have to take the consequences of the greater exposure that greater openness brings. At the same time, being transparent reduces risks by identifying problem areas at an early stage.

In the future, companies will be challenged in many ways in their reporting efforts. Several factors account for this:

> The numbers and magnitude of accounting failures, executive misconduct and greed talk a sad language of business behavior. The responses are already significant. Policymakers and regulators are introducing new tougher rulings and legislation emphasizing management responsibility for financial reporting, disclosures and internal control systems and independence of audit committees. Although this relates primarily to financial accounting and reporting, the link to sustainable development reporting is obvious since business ethics is one important aspect of the corporate social responsibility concept. One can expect that there will be an increasing demand for third party assurance of reported information.

> There is a clear trend toward harmonization of internationally accepted accounting practices. In order to increase comparability between financial statements, the European Union (EU) has requested that, by 2005, all listed companies follow the same International Accounting Standards (IAS). However, whilst there are calls to bridge transatlantic divergences between the principle-based IAS and the rule-based US Generally Accepted Accounting Principles (GAAP), it is not yet clear how such a convergence will happen.

> The EU has also encouraged all publicly-quoted companies with at least 500 employees to report on their performance against economic, environmental and social criteria. In several countries, the request to report on aspects of sustainable development performance is introduced in corporate accounting and disclosure laws

and regulation. Recommendations from core stakeholders point in the same direction. In the UK, for example, new disclosure guidelines from the Association of British Insurers (ABI), a major investor at the UK stock market, are driving sustainability issues into corporate annual financial reports. The very reason for this is that sustainable development will increasingly have an impact on the 'true and fair view' of a company's financial performance and position.

> The call made by various NGOs and supported by the United Nations Development Program (UNDP) to regulate corporate social responsibility did not make it into the final political declaration emerging from the World Summit on Sustainable Development in Johannesburg in September 2002. Both companies and policymakers agreed that corporate social responsibility is currently best served as a voluntary undertaking. This reaffirms the EU's earlier decision not to establish regulatory frameworks until 2004. Yet, companies should not expect this 'grace period' to last for more than a few years. It may not be enough for a few hundred, or even a few thousand, businesses to demonstrate openness and transparency.

> Current reporting practices rarely address the financial benefits of sustainable development activities. In an increasingly harsh business climate with cost-cutting and a trend toward 'lean' organizations, companies need to be able to account for the financial and shareholder value generated by their sustainable development activities. We expect that companies will have to develop better indicators to account for and report on the value created by their achievements. This is a good attitude when the long-term survival of the company is challenged.

> The future is likely to bring more harmonized sustainability reporting requirements. It is not in business' interest to have too many overlapping reporting systems and guidelines. There is strength in maintaining a voluntary multi-stakeholder process like the Global Reporting Initiative (GRI) as this will help to ensure that the outcome at best meets the reporting and informational needs of both producers and users of reports. However, reporting guidelines should be flexible enough to be adapted to the specific circumstances and operations of individual companies. Voluntary company reporting in a standardized form could make it unnecessary to introduce legal requirements.

> Much attention should be given to the interrelationship between reporting and management processes in companies. There is still a lot to gain by integrating the two processes and companies should see this as a key for their future development.

> As our work has demonstrated, there is a need to close the gap between sustainable development reporting and the information requests from the financial community to feed their rating processes. The WBCSD encourages a move toward greater rating consistency.

> Current reporting practices are often performed within the boundaries of the reporting organization. In the coming years, it is likely that companies will increasingly report across the value chain. This will represent a new challenge in terms of reporting on the upstream (supplier related) issues linked to human rights, environmental and societal impacts, and also of coping with the wider downstream (consumer related) impact of products and services.

> Companies tend to report on past activities. The future will bring more reports that help to look forward, with information on a company's business models, its ability to meet targets, perform research and development, and respond to markets trends. Stakeholder focus, not least the focus of investors, will be on where the business is heading. This is because the business circumstances, future environment and management's ability to respond effectively to scenarios determine today's monetary value of the business.
>
> Further, as sustainable development becomes more mature as an operational objective, companies will be expected to report more on macro issues and take positions on public policy issues such as terrorism, public services, consumption, and many more. This trend will happen as information becomes more readily available online and 'real-time'.

The completion of this report marks the conclusion of the work of the WBCSD's 'Sustainable Development Reporting' working group. However, the council and its members acknowledge that there is a need to continue exploring these issues from the broader perspective of corporate accountability and governance. Therefore, as a next step, the WBCSD's Executive Committee has approved the formation of a new project on 'Accountability and Reporting' to delve into these issues.

Appendices

Appendix 1

Sustainable Development Reporting working group

Co-chairs

Bert Heemskerk
Chief Executive Officer, Rabobank Group

Pasquale Pistorio
President and Chief Executive Officer, STMicroelectronics

Martin Scicluna
Managing Partner, Global Strategic Clients, Deloitte Touche Tohmatsu

Steering group

Georges Auguste
Vice President and TQEM Director, STMicroelectronics

Åse Bäckström
Manager, Deloitte Touche Tohmatsu

Sybren de Hoo
Head of Sustainable Development Department, Rabobank Group

Henry King
Manager, Unilever

Preben Soerensen
Global Leader, Environment & Sustainability, Deloitte Touche Tohmatsu

The working group was fortunate to have the leadership of Bert Heemskerk, Pasquale Pistorio and Martin Scicluna. We were also rewarded by the efforts of their respective liaison delegates, Sybren de Hoo, Georges Auguste and Preben Soerensen.

A few individuals made uniquely valuable contributions to the project. Warmest thanks to Åse Bäckström, Deloitte Touche Tohmatsu, Frede Cappelen, Statoil, Claudia Gonella, KPMG, Henry King, Unilever, and Erin Elizabeth Kreis, GM, for their expertise. In the WBCSD secretariat, Tauni Brooker, Christine Elleboode-Zwaans and Arve Thorvik have been involved in the project. Special thanks also to Marco Bedoya who provided essential analytical work by conducting the survey of WBCSD member reports and many of the interviews. His research has provided much of the content of the reporting portal.

Finally, many thanks to all the working group members who have informed the substance of this report, as well as to the numerous experts who have participated in our dialogues.

Members

Mike Falco	3M
Roger Spiller	BCSD New-Zealand
Bill Boyle	BP Amoco
Jan Dell	CH2MHILL
Bill Wallace	CH2MHILL
Georgia Callahan	ChevronTexaco
Jean (Pogo) Davis	ConocoPhillips
Markus Lehni	Deloitte Touche Tohmatsu
David Russell	Dow Chemical
Dawn Rittenhouse	DuPont
David Berdish	Ford
Erin Elizabeth Kreis	General Motors
Aiko Bode	Gerling-Konzern Insurances
Joachim Ganse	Gerling-Konzern Insurances
Maria Emilia Correa	Grupo Nueva
Fernando Gonzales	Grupo Vitro
Anne Gambling	Holcim
Frank Rose	Imperial Chemical Industries
Pieter Kroon	ING Group
Thomas C. Jorling	International Paper
Claudia Gonella	KPMG
Outi Mikkonen	Nokia
David Stoneham	Nokia
Rune Andersen	Norske Skog
Martin Tanner	Novartis
Claus Frier	Novozymes
Greta Raymond	Petro-Canada
Bill Hunter	Petro-Canada
William Kyte	PowerGen
Peter White	Procter & Gamble
Shaun Stewart	Rio Tinto
Richard Sykes	Royal Dutch/Shell
Mark Wade	Royal Dutch/Shell
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Brage W. Johansen	Statoil
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Yasuo Hosoya	Tepco
Masayo Hasegawa	Toyota
Chihito Yasuda	Toyota
Ulrich Menzel	Volkswagen
Horst Minte	Volkswagen
Gordon Drake	WMC Limited

Appendix 2

Dialogue participants

London (June 19, 2001)

Åse Bäckström	Deloitte Touche Tohmatsu
Aiko Bode	Gerling-Konzern Insurances
Matthias Bönning	Ökom Research
Tauni Brooker	WBCSD
Frede Cappelen	Statoil
David Coles	KPMG
Sybren de Hoo	Rabobank Group
Emma Howard Boyd	Jupiter Asset Management
Andreas King	SERM Rating Agency
Ivo Knoepfel	SAM Sustainability Group
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Karina Litvack	Friends Ivory & Sime
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Anne-Maree O'Connor	Morley Fund Management
Eduardo Prieto Sanchez	Grupo Primex
Rainer Rauberger	Henkel
Greta Raymond	Petro-Canada
David Russell	Dow Chemical
Bas Rüter	Triodos Bank
Preben Soerensen	Deloitte Touche Tohmatsu
Martin Tanner	Novartis
Raj Thamotheram	Shared Vision Social Responsibility
Mark Wade	Royal Dutch/Shell
Geir Westgaard	Statoil
Tom Woollard	ERM
Chihito Yasuda	Toyota Motor Corporation

Geneva (February 28, 2002)

Åse Bäckström	Deloitte Touche Tohmatsu
Tauni Brooker	WBCSD
Frede Cappelen	Statoil
Ruth Coward	EIRIS
Sybren de Hoo	Rabobank Group
Oliver Karius	SAM Sustainability Group
Henry King	Unilever
Carolin Kranz	BASF
Erin Elizabeth Kreis	General Motors
Greta Raymond	Petro-Canada
David Russell	Dow Chemical
Bas Rüter	Triodos Bank
Andreas Stefferl	Ökom Research

New York (June 28, 2001)

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Mark Bateman	Investor Responsibility Research Center (IRRC)
Sebastian Beloe	SustainAbility
Tauni Brooker	WBCSD
John Cusack	Innovest
Eric Fernald	KLD Research and Analytics
Ilene Fiszel Bieler	Citigroup
Iris Gold	Citigroup
Sybren de Hoo	Rabobank Group
Kaj Jensen	Environmental Bankers Association
Julie Kane	Novartis
Henry King	Unilever
Greta Raymond	Petro-Canada
Brad Simmons	Ford Motor Company
Jim Thomas	Novartis
Bill Wallace	CH2M HILL

Appendix 3

WBCSD position on the Global Reporting Initiative (GRI)[7]

The World Business Council for Sustainable Development (WBCSD) believes that companies can promote sustainable development by effective communication about business achievements and efforts.

The WBCSD encourages the formation of any multi-stakeholder institution that will work to develop understanding and harmonize the practice of sustainability reporting.

The WBCSD supports the Global Reporting Initiative (GRI) in this work, subject to the organization and its process being transparent, consensus-driven, balanced, accountable, credible and independent. On that basis the WBCSD:

> Supports the GRI process to establish voluntary guidance for reporting on the integration of economic, environmental and societal aspects of business performance;

> Assumes practicability, pertinence, relevance, transparency and the flexibility to allow innovative reporting as key success factors in the GRI process;

> Considers the GRI as a dynamic process for further improving a framework of reporting;

> Sees an advantage of increased credibility in reporting based on the multi-stakeholder process inherent in the GRI;

> Actively supports the GRI process through volunteer participation in the different bodies and working groups – and expects to be represented in these bodies;

> Encourages its members to actively support the GRI and participate in working groups and meetings to further develop understanding of and revisions of the guidelines;

> Informs members on the evolvement of the GRI and ensures member interests and concerns – as a group – are represented;

> Encourages member companies to address GRI guidelines, where applicable, in their reporting undertakings.

[7] This position was developed by the members of the WBCSD's working group on 'Sustainable Development Reporting', and endorsed by the council's Executive Committee in January 2002.

About the WBCSD

The World Business Council for Sustainable Development (WBCSD) is a coalition of 160 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress. Our members are drawn from more than 30 countries and 20 major industrial sectors. We also benefit from a Global Network of 40 national and regional business councils and partner organizations involving more than 1,000 business leaders globally.

Our mission

To provide business leadership as a catalyst for change toward sustainable development, and to promote the role of eco-efficiency, innovation and corporate social responsibility.

Our aims

Our objectives and strategic directions, based on this dedication, include:

Business leadership – to be the leading business advocate on issues connected with sustainable development.

Policy development – to participate in policy development in order to create a framework that allows business to contribute effectively to sustainable development.

Best practice – to demonstrate business progress in environmental and resource management and corporate social responsibility and to share leading-edge practices among our members.

Global outreach – to contribute to a sustainable future for developing nations and nations in transition.

Disclaimer

This report is released in the name of the WBCSD. Like other WBCSD reports, it is the result of a collaborative effort by members of the secretariat and executives from several member companies. The views expressed do not necessarily represent the views of every WBCSD member.

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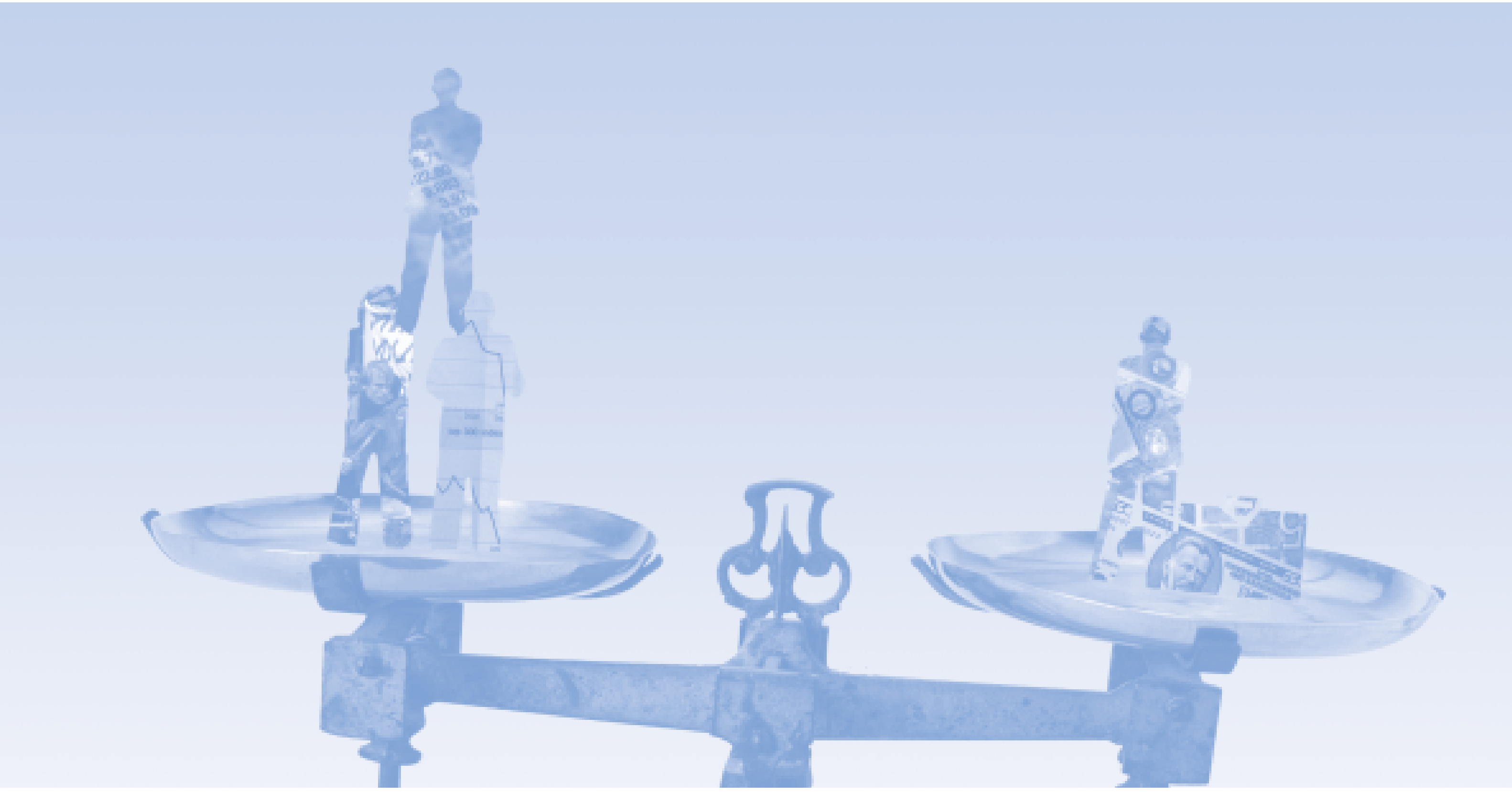

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