



report of the judges

ACCA UK AWARDS FOR SUSTAINABILITY REPORTING 2007

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1. Introduction

DEVELOPMENTS IN THE LAST 12 MONTHS

Welcome to the ACCA UK Awards for Sustainability Reporting report of the judges 2007. Since the 2006 Awards the ongoing debate on sustainability and subsequent sustainability reporting, particularly in the area of climate change, has developed significantly.

The Stern Review, published in October 2006, looked at the economic impacts of the 'business as usual' scenario and the 'take action' scenario (finding that the latter resulted in significantly lower loss of GDP than the former). The fifth round of the Carbon Disclosure Project saw its highest ever response rate from companies, with 315 investors worth \$41 trillion, along with strong evidence that the gap between climate awareness and action is continuing to decrease. The Intergovernmental Panel on Climate Change (IPCC) 4th Annual Assessment confirmed that climate change is a result of human actions, and that temperature increases are likely to be 1.8–4°C (3.2–7.2°F) by the end of the century. The general consensus is that a 'business as usual' scenario is no longer acceptable, and is likely to have severe negative environmental, social and economic impacts on developed and, in particular, developing nations if left unaddressed. Governments, corporations and individual consumers need to therefore work together to reduce emissions.

There is also increasing evidence of concern from the public on issues relating to sustainability, and various projects being launched to raise awareness, for example, the carbon

labelling scheme introduced by The Carbon Trust in 2007 as well as encouragement from Government to improve the energy efficiency of homes and offices.

ACCA has remained at the forefront of the debate, contributing to Government discussions on the proposals for mandatory reporting and the Carbon Reduction Commitment, continuing its research programme on sustainability related topics, holding educational seminars for its members and hosting various events around the world to raise awareness. One particular event in 2007 which attracted a lot of interest was held in Hong Kong, on the linkages between climate change, ethics and sustainability. US VP Al Gore presented to an audience of leading government officials, business executives, leaders of the accountancy profession and senior ACCA members from Hong Kong SAR, Mainland China and across the Asia Pacific Region.



Above: US VP Al Gore presenting, at ACCA's event in August 2007, in Hong Kong, on the linkages between climate change, ethics and sustainability.

He stressed that continuing to measure and record only what is conventionally regarded as having value (or as being a liability) will prevent accountants (and hence industry and its regulators) from grasping the environmental priorities and will only further contribute to the constrained thinking that has brought the world to its current, environmental state. He then went on to recommend that accounting standard-setters and professional associations should focus their thinking on fuller carbon emission disclosures and the development of methods for fully internalising carbon-related assets, liabilities and costs.

THE REPORT OF THE JUDGES

This report presents the findings and reflections of the judging panel for the ACCA UK Awards 2007. It summarises the strengths of all those reports that won an award and offers technical recommendations to improve further the standard of reporting in the UK.

These recommendations are evidence of the judges concern that reporting both reflects and drives sustainability performance, taking on board the challenges and discussions that have been taking place over the last 12 months.

Introduction (continued)

TAKING PART

ACCA recognises the trend towards more integrated reporting across the environmental, social and economic dimensions of performance, which has led to growth in both hybrids of reporting types and different scopes of reports. In recognition of this development we abolished the three separate reporting categories: social, environmental and sustainability reporting in 2006, meaning that in order to enter, reporters no longer had to categorise their reports as a specific type. The judges welcomed the submission of all non-financial types of report and reporting (falling under three broad headings of CSR, corporate responsibility and sustainability).

To acknowledge those reporters who use electronic media in communicating their environmental, social or sustainability impacts and activities, a commendation for electronic reporting is also awarded. This is given in partnership with CorporateRegister.com

2007 REPORTING THEME

Since 2004, the UK Awards have also featured a reporting theme. So far, these have been stakeholder engagement, bribery and corruption, and climate change. This year, in partnership with Tomorrow's Company, the theme is disclosures on sustainability strategy and governance.

Demonstrating a coherent and integrated approach to managing sustainability performance, including strategy and governance structures, is an essential part of sustainability reporting. A selection of entrants' reports was reviewed (using criteria developed by Tomorrow's Company and ACCA) and the analysis is summarised in this report (see pages 28–42).

THE JUDGING PROCESS

The judging process was altered slightly for 2007, owing to the change in timetable. The same independent researcher, Dr Crawford Spence from the University of St Andrews, carried out the initial analysis using the updated ACCA judging criteria. The top 25 companies resulting from this analysis were considered by a second judge, and the differing scores and judges' views were discussed at a meeting to select the shortlist. The main judging panel then considered all shortlisted reports for receipt of an award.

ACCA also commissioned EIRIS to undertake some issue-based research on each shortlisted company. This highlighted events and issues (both positive and negative) companies had been involved in. The write-up was circulated to judges prior to the main judges' meeting.

THE ACCA UK AWARDS JUDGES

Simon Abrams	Client Services Manager, Ernst & Young LLP
David Aeron-Thomas	Acting Director, Sustainability Economy Programme, Forum for the Future
Paul Burke	Senior Partner, Acona Ltd
Prof Martin Charter	Director, Centre for Sustainable Design, University College for Creative Arts at Farnham
Prof Rob Gray	Professor of Social and Environmental Accounting, CSEAR, University of St Andrews
Jayn Harding	Principle Advisor, Responsible Investment, FTSE Group
John Hill	Independent Sustainable Business Adviser
Hugh Huddy	Best Practice Officer for Accessible Information, RNIB
Dr Vernon Jennings	Director, Sustainable Development Consultants Ltd
Mike Kelly	UK Head of Corporate Social Responsibility, KPMG LLP
Dr Alan Knight	Head of Standards, AccountAbility
Mark Line	Director, csrnetwork limited
Judy Kuszewski	Director, Client Services, SustainAbility Ltd
Stephanie Maier	Head of Research, EIRIS
Patrick Mallon	Director of Benchmarking and Reporting, BitC
Dr Peter Michaelis	Head of SRI, Morley Fund Management
Roisin Sharkey	Environmental Reporting and Policy Adviser, DEFRA
David Nussbaum	Chief Executive, WWF UK
Prof David Owen	Professor of Social & Environmental Accounting, Nottingham University Business School
Paul Scott	Director, CorporateRegister.com / Next Step Consulting
Geert-Jan Smits	Director, JungleRating BV
Dr Crawford Spence	Lecturer, University of St Andrews
Joss Tantram	Partner, Terra Consult
April Vesey	Head of the Sustainable Technologies Unit, Sustainable Development Directorate, DTI



THE ACCA UK AWARDS 2007 SHORTLIST

Anglo American	www.angloamerican.co.uk
BHP Billiton	www.bhpbilliton.com
BP plc	www.bp.com
BT Group plc	www.bt.com
Camelot	www.camelotgroup.co.uk
GlaxoSmithKline	www.gsk.com
Island Waste Services (SME)	www.islandwaste.co.uk
Shared Interest (SME)	www.shared-interest.com
Shell International BV	www.shell.com
Thames Water Utilities Ltd	www.thames-water.com
The Body Shop International	www.thebodyshop.com
Traidcraft (SME)	www.traidcraft.co.uk
Unilever	www.unilever.com
Vodafone	www.vodafone.co.uk
Xstrata plc	www.xstrata.com



2. The ACCA UK Awards 2007 winners

THE ACCA UK AWARDS 2007 WINNERS

Eight awards were made for 2007, as follows.

- Winner – best report 2007

BT

- Runner up – best report 2007

Unilever

- Commendation for transparent disclosures on public policy, lobbying and taxation

Vodafone

- Commendation for transparency in approach to assurance

BP

- Joint commendations for SME reporting

Traidcraft

Shared Interest

- Winner – Electronic Media Commendation

BHP Billiton Ltd

- Runner up – Electronic Media Commendation

Centrica plc

WINNER – BEST REPORT 2007

BT

Changing World: Sustained Values 2007

Web-based version <http://www.bt.com/betterworld>



The main Web-based report:

- is forward looking and addresses the key issues relevant to BT and the telecommunications sector, including customer satisfaction, preventing misuse of technology, climate change, product accessibility, innovation, operational impacts and economic growth
 - gives a detailed description of the process used to identify material issues for both BT and its stakeholders
 - describes the organisation's business strategy in detail, which was considered by judges to be a rare occurrence in reporting
 - outlines the CSR business case for BT, explaining the five key ways in which the organisation considers CSR to affect business performance
 - discusses the risks and opportunities for BT in relation to climate change
 - provides a digestible overview of climate change (and other) programmes
 - discloses both relative and absolute figures for carbon emissions
 - includes a detailed, critical statement from the stakeholder panel, which makes detailed observations and challenging recommendations
 - identifies the key CSR risks for the business, including an explanation of how they are selected – these risks are plotted on a graph showing the likelihood that the risk will occur, against the financial impact of the risk over a three-year period
- includes 'hot topic' pieces, which are external stakeholder perspectives on the more controversial issues for BT, including abuse on the internet and offshoring jobs
 - provides a concise summary of performance against KPIs since 2005 as well as the quantitative and qualitative targets for 2008
 - identifies key stakeholders for the business as well as dialogue methods for each
 - is externally verified by LRQA, using the AA1000 Assurance Standard.

Despite these commendable achievements in BT's online reporting, there were some recommendations for improvement suggested by the judging panel, relating in particular to the summary report. BT should:

- ensure that too much detail is not lost in the summary report as this risks losing the complex key messages BT conveys so well in its online report
- provide a fuller, or the complete, version of the CSR stakeholder panel and assurance statement – again – as cutting these down means that key recommendations and commentary are lost for readers
- include some of the problems and challenges BT encounters, as well as the 'good news' stories, to give a more balanced overview of the year's performance.



RUNNER UP – BEST REPORT 2007

Unilever

Sustainable Development Report 2006

<http://www.unilever.com/ourvalues/environmentandsociety>



The report:

- gives a concise, readable overview (textual and diagrammatical) of the key issues for both the business and each stakeholder group and how they are being addressed
 - focuses predominantly on the company's products, their impacts and ways in which Unilever is trying to mitigate these, which helps the reader get an overview of what the business is about
 - discloses information on a range of business-related measures, for example, the percentage of turnover spent on advertising and the percentage of particular Unilever products in the overall market, which is an innovative and unusual approach
 - explains how the company contributes to sustainable development and what it means for the business, and the size of the task involved
 - gives an informative overview of Unilever in the opening pages, including operating profits, turnover, purchasing goods and employees by region and brands
 - gives very detailed information on Unilever's approach to supply-chain management, including how the company is communicating expectations to suppliers and monitoring responses and ensuring implementation of conduct in Tier 1 suppliers
- focuses more on the whole life cycle of their products than other reporters
 - includes very detailed information on eco-efficiency performance, with data since 1995 for most KPIs, and targets until 2011
 - highlights the fact that CO₂ emissions of Unilever's products when in use are thirty times those of its manufacturing processes, thus emphasising the key product impacts
 - provides absolute and normalised KPI information.

The judges also had some recommendations for improving the quality of Unilever's reporting. Unilever should:

- make the Unilever *Environmental and Society* website easier to navigate and less 'busy' – a potentially serious issue as some readers might not venture beyond the summary report
- include more information in the report on challenges and problems encountered by Unilever, as well as the success stories
- give more of an explanation of what the KPI disclosures actually mean for the business – including more analysis of any trends and improvement/decline in performance, etc.

COMMENDATION FOR TRANSPARENT DISCLOSURES ON PUBLIC POLICY, LOBBYING AND TAXATION

Vodafone

'The potential of communications'

<http://www.vodafone.com/start/responsibility.html>



The report:

- discloses key areas on which Vodafone has engaged with government and regulators – including international roaming, call termination, privacy and data security
- outlines Vodafone's public policy principles and cites extracts from the Tax Code of Conduct
- lists examples of the industry associations the company works with on public policy issues
- makes clear that copies of formal submissions made to government and regulators are available on request
- discloses the amount of tax paid in 2007 across all countries in which Vodafone operates
- provides details of two current legal cases in the UK and Germany relating to taxation activities
- gives examples of where Vodafone has engaged in debate and discussion on taxation matters, for example, a workshop held at the Oxford University Centre for Business Taxation
- is transparent about the obligation to pay taxes, while at the same time maximising shareholder value and controlling tax costs, and the potential conflict with certain stakeholders on this point of view
- states that the company has not made any political donations in 2007, in line with the Vodafone public policy principles.

The judges also had some recommendations for improving the quality of Vodafone's reporting in this area:

- More detailed disclosures on the topics over which Vodafone engaged with regulators and governments; the report currently lists subject areas and these could be expanded with specific examples and outcomes
- Disclosures on the use of any political consultants for Vodafone's public policy and lobbying work.

COMMENDATION FOR TRANSPARENCY IN APPROACH TO ASSURANCE

BP

Sustainability Report 2006

<http://www.bp.com/environmentandsociety>



The report:

- contains the full assurance statement from the assurance provider, rather than a summary, with links to the BP website for more detail on certain areas
- provides commentary from BP on the assurance process, methodology and outcomes
- states that the assurance engagement was carried out using AA1000AS and ISAE 3000
- provides a detailed description of the methodology behind the assurance engagement, including sites visited and how they were selected, and the consideration of stakeholders during the process
- states the assurance provider's independence from BP
- contains conclusions and recommendations from the assurance provider in line with the three principles of AA1000AS – materiality, completeness and responsiveness
- describes selected observations made during the assurance engagement, which were included in the report to BP's management
- includes specific observations throughout (from the assurance provider) from particular site visits or interviews with personnel, which help the reader get an insight into the assurance process and some of the challenges and questions it brought up
- provides references to more detailed observations from the assurance provider's report to management on the BP website.

BP's approach to external assurance was considered to be a leading example. Nonetheless, in line with the recommendations made in 2006 by the judging panel, there are some areas which could be further improved: BP should:

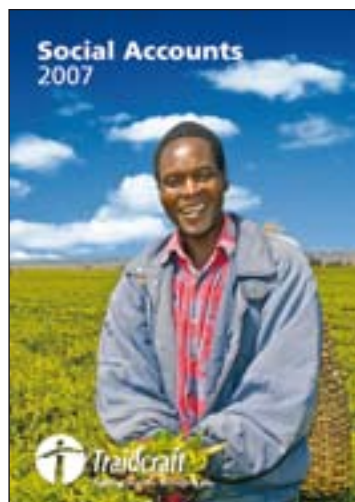
- address the statement to the company's stakeholders (in particular, the readers of the report) rather than its management
- explain how the company has responded to recommendations made in previous years' assurance engagements.

JOINT COMMENDATION FOR SME REPORTING

Traidcraft

Social Accounts 2007

http://www.traidcraft.co.uk/about_traidcraft/social_accounts/social_accounts.htm



The report:

- gives the reader a very good overview of the organisation, the challenges it faces and its performance against objectives, which are all brought together by the clear mission statement
- is available in summary and full report (in PDF) and online
- is structured around Traidcraft's five objectives, which help give an overview of what the organisation is about and where it would like to be in the future
- gives a very transparent account of the Q&A from the AGM (including the more controversial ones), which provides a good insight into the organisation and demonstrates that Traidcraft engages with its stakeholders
- provides an explanation of the key organisational issues – for example, the requirement for Christianity – and does not shy away from discussing them
- explains the company's values and principles and how these guide Traidcraft's actions and overall conduct
- includes a director's response on several areas of performance or stakeholder feedback
- discloses very detailed information on employees – including turnover, diversity, reasons for leaving, benefits, wages and training, as well as a detailed overview of the results of the staff satisfaction survey
- provides an appendix on Traidcraft's environmental performance, including an estimate of the organisation's carbon footprint, employee travel impacts and utilities
- is externally verified by justassurance, using the AA1000 Assurance Standard.

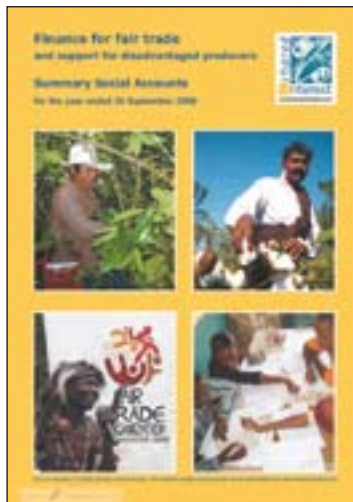
Despite the high quality of this detailed report, judges felt that more work could be done to develop a reporting model that is informative, summarises the main performance issues and uses KPIs clearly and concisely. The summary report at the moment is very brief and the main report has too much of a focus on raw data, leaving readers to interpret it themselves, to a certain extent. A mid-way point between the two versions would be optimal.

JOINT COMMENDATION FOR SME REPORTING

Shared Interest

Social Accounts for year ending September 2006

http://www.shared-interest.co.uk/annual_review.html



The report:

- clearly sets out its mission statement, vision and values, which help give the reader an idea of the company and its purpose in a simple, colourful, readable style, appropriate to the size of the organisation
 - is available as a summary and full version PDF and online
 - explains that the five objectives, around which the performance elements are structured, were identified from the mission and values statements in consultation with stakeholders
- Includes both qualitative and quantitative performance information against the five objectives (although judges argued that this could be improved by the inclusion of more data and a trend analysis)
 - clearly identifies and defines key stakeholder groups as well as ranking them in order of importance
 - provides stakeholder quotes and commentary on key issues throughout the report
 - includes (in its appendices) very detailed disclosures on the staff questionnaire and customer surveys (with results) and AGM member surveys
 - refers to omissions in last year's report and explains progress in these; for example, there are more economic performance data in the latest set of accounts
 - is audited by a Social Audit Panel made up of external experts.

As with the Traidcraft report, the judges' main recommendation for Shared Interest was to develop a report which is more user friendly and forms a mid-way point between the too-brief summary report and extremely detailed full report (see Traidcraft text for more detail).

Judges also noted that more detailed disclosures on how successful the company's loans in terms of their benefits to society, rather than just focusing on the money lent as a KPI would make the reporting more complete.

The ACCA UK Awards 2007 winners (continued)

WINNER, ELECTRONIC MEDIA COMMENDATION

BHP Billiton Limited

'Licence to Operate' BHP Billiton Sustainability Report 2006

<http://sustainability.bhpbilliton.com/2006>



The Web-based report:

- has extremely user-friendly navigation, offering multiple options such as navigators for Global Compact, GRI and Millennium Development Goals, together with a browsing guide
- provides a wealth of narrative information and data backed up by PDFs, all reflecting the scale of the company's global operations
- is extensive but highly functional with a clear writing style and appropriate use of technology
- includes an HSEC target scorecard and key data summary, both of which are useful features for readers
- is very credible, using the AA100AS assurance standard, applying the G3 GRI guidelines to level A+ and including a UN Global Compact index.

RUNNER UP, ELECTRONIC MEDIA COMMENDATION

Centrica plc

Corporate Responsibility Report 2006

<http://www.centrica.co.uk/files/reports/2006cr/index.asp>



The Web-based report:

- demonstrated how user-friendly a well-organised, clean website can be
- included a CEO introduction as a video clip (with multiple viewing formats and PDF transcript) on which the entire panel commented favourably
- was easy to navigate, highly accessible and very functional; the graphical data representation is effective, and the CR toolbox useful
- is credible, with an external assurance statement, a G3 GRI index and a UN Global Compact index.

3. Technical recommendations

In addition to reporting expertise, the members of the judging panel are selected for their diverse stakeholder representation. As a consequence of this diversity, there is a lively discussion of key reporting issues at the judging meeting. Given the broad range of expertise of the judging panel, members have in some cases worked with the short-listed companies. Where this was the case, to avoid any conflict of interest, judges did not participate in discussion of those reports. During the meeting to select the 2007 winners, there was also much evaluative dialogue regarding the report entries. As a result, a number of technical recommendations have been put forward by the judges to help improve reporting in the future.

GENERAL COMMENTS

Judges noted that there have been some significant areas of improvement for the 2007 entries. More companies are disclosing information on their approach to public policy and lobbying and the materiality processes in place to identify key issues on which to report. Defining report scope, outlining the major commercial activities, and disclosures on governance structures and levels of board involvement in managing sustainability are also elements that more reporters are covering. Judges also noted that companies were doing a better job (but still had some way to go) in putting sustainable development into context by explaining how it relates to the business and its operations/products.

HIGHLIGHTS OF 2007 ENTRANTS

Overall, the 2007 entrants:

- have improved disclosures on public policy and lobbying
- explain materiality processes in place to select issues
- define report scope
- outline major commercial activities
- describe governance structures and board involvement in sustainability.

The areas that need to improve in many reports are the detailed disclosures on business strategy and a credible articulation of sustainable development in terms of what it means for the business – as well as a description of the organisation within the wider social and environmental systems in which it operates. Accounting for social and environmental externalities is another area that the majority of companies do not adequately address. Judges also noted that although reports rightly respond to key events and risks, it is essential also to demonstrate a steady, determined integration of sustainable development into operations and processes.

SUMMARY REPORT VERSUS FULL VERSION

One key point made by judges this year is the tendency for summary reports to lose essential detail that is contained in the full version. The aim of the summary report is to provide a concise overview of the organisation's material impacts, operations, performance and processes, with the detailed, full version to be provided on the Web.

In practice, in several of the entries in 2007, it was noted that although Web reports are often extremely informative (if confusing to navigate at times), the summary report can be disappointingly lacking in detail on the key issues in which readers would be interested and read more like a document focusing on PR-friendly 'good news' stories than a balanced, complete overview.

Judges also noted that if a summary report is specifically aimed for a group of stakeholders – employees and customers for example – this should be clearly stated from the outset – especially if the target stakeholder group(s) are different from those of the full version.

Another observation was that, in summary reports, the detail is often taken out of the assurance statement and/or external stakeholder/panel commentary, with the full version only available online. Although the logic behind this is understood, there is a possibility that by extracting key information and feedback points made by the assurance provider or stakeholder panel, the resulting abridged statement does not tell the reader

much about the outcomes of the assurance process and the recommendations for improvement made to the company.

One final point to consider is whether an assurance statement contained within a summary report applies to that summary or only to the full version. Any materiality, completeness and responsiveness comments and recommendations that are made in the statement for the full report may not be appropriate to include in a statement in the summary report – this could be misleading for readers in that it may state that all material issues are covered in sufficient detail when, in fact, they are not. Reporting organisations could consider two options to overcome this:

- 1) have two completely separate assurance engagements – one addressing the information in the summary report and one for the full version
- 2) produce two separate statements (as part of the same engagement) for the summary report and full report, each one referring only to the disclosures in that version, to avoid any confusion on the readers' part.

REPORTING ON OPPORTUNITIES AS WELL AS RISKS

Many reporting organisations are now disclosing information on their key CSR or non-financial risks that could pose a threat to the business now and in the future. Some are also explaining the methods behind selecting these material risks and ranking them according to importance to the business and stakeholders, all of which is commendable and should be continued.

Nonetheless, there are very few organisations realising (or acknowledging) that although key material risk areas (climate change being the example used in this recommendation) can pose a significant threat to the future performance of the business, they can also create some real business opportunities and benefits, provided they are addressed in a timely fashion and included in business strategy and planning. As stated in the Stern Review in 2006, adopting a 'business as usual' approach will actually lead to a much higher loss of GDP than taking urgent, strong action – be it by adopting more energy-efficient operational processes or developing new products and services that have a lower carbon footprint. With the UK market for climate change mitigation already being estimated at £3.5 billion by 2010 (up from £2.1 billion this year), there are going to be significant opportunities for both UK and international business.

BT's sustainability report (summary version) was one that the judges felt addressed the opportunities as well as risks arising from sustainability-related activities (climate change, in this instance). The report includes a section entitled 'Is climate change a business risk or opportunity?', which clearly states that although climate change is a risk to the business, it also presents opportunities in terms of strengthening relationships with customers, employees and regulators. It then goes on to outline the climate change programme (more detail on which is given in the online version), which covers reducing BT's own CO₂ emissions; influencing customers by creating new products and services that are energy efficient; and influencing suppliers and engaging employees to encourage more efficient behaviour, both at home and at work.

The online version of BT's report also states that as well as launching its CSR risk identification and management system, the organisation is also in the process of developing a CSR opportunities map, to increase understanding and knowledge on the key opportunities for BT arising from CSR impact areas.

The judges recommend that reporting organisations start to explain how they are incorporating climate change considerations into their business planning, product and service innovation, and operating processes and, where possible, how they are using it to their advantage. The types of area that could be discussed in a sustainability report include:

- development of new, cleaner technologies and operating processes
- product innovation for more energy-efficient goods
- competitiveness of the market in these areas and the potential of displacing more polluting peer companies
- consumer needs and concerns and how to respond to them in a way to attract and retain customers
- forward-looking analysis concerning how markets could change in the future and how the organisation is building this into planning processes.

DISCLOSURES ON ENERGY SECURITY

One key area that very few organisations address in their reports and that is crucial when considering climate change is energy security or security of supply (which can be defined as the ability to supply energy to meet demand at a price that protects economic growth). Increasing oil prices, the rising energy demand of developing nations such as India and China, along with political unrest in energy supplier nations, means that this issue should be at the forefront of any energy-intensive sector's climate-change strategy and risk-management processes.

All UK organisations that rely on energy-intensive operational processes should be factoring in the possibility that the UK's energy supply may become less secure in the future, which could result in a number of outcomes affecting these companies' ability to continue operating as normal. These include:

- significant energy price rises arising from increased world competition for resources
- changes in the price of carbon emissions within individual trading schemes (for example, the EU Emissions Trading Scheme)
- increased reliance in the UK on imported energy resources and the subsequent consequences if these supplies become unstable

Technical recommendations (continued)

- the possibility that energy supplies to the UK from a supply nation may be interrupted owing to a dispute in a 'middleman' country.

Where relevant and material, organisations should be discussing these issues in their reporting in terms of how they could potentially affect the organisation's strategic direction and performance and the UK's overall economic growth, as well as the company's response to government papers and proposals, such as the UK Energy Review and Energy White Paper. This issue may not be considered as material for certain SMEs or the less energy-intensive sectors, but the utility, oil and gas, extractive and manufacturing companies (as well as those SMEs that are energy intensive or closely linked to energy markets) should all be covering it.

In its online CR report, Centrica clearly lays out the energy security issue in terms of its impact on the UK's energy resources and increasing reliance on imports. The report then goes on to describe what Centrica is doing to minimise the risks posed to the UK, including:

- committing to investing £750 million in renewable energy assets, mainly onshore and offshore wind farms' and its current construction of the UK's largest offshore wind farm at Lynn and Inner Dowsing
- participating in gas exploration and production activities as far afield as Norway, Nigeria, Egypt and Trinidad to secure gas supplies for the UK
- signing deals worth billions of pounds to import new gas supplies to the UK from Norway via the new Langeled pipeline, Holland through the BBL pipeline and in the form of liquid natural gas.

The report also displays diagrammatically Centrica's position with regard to upstream gas, listing its long-term gas supply contracts and listing activities in other regions.

FORWARD-LOOKING STATEMENTS IN REPORTING

As well as reporting on past sustainability performance and key events, the ACCA judges believe that organisations should also be including more narrative, forward-looking information in their publications to show that content is not just reactive and that the topics covered are truly key in strategy planning and objective setting.

Organisations in those industries (for example, oil and gas) that are likely to be affected significantly by long-term issues such as climate change and water use should be giving some indication of a timeline for action, several years into the future. This could include long-term targets for emissions reductions, investments in clean technology, expansion into new regions, predicted risks and challenges and new products and services.

Treating sustainability reporting as both an explanation of past achievements and an assessment of future issues and developments will also help organisations prepare for the updated UK Companies Act 2006. Passed in November 2006, the Act requires companies to disclose information in their Business Reviews on the main trends and factors likely to affect the future development, performance and position of the company's business, and information about environmental, social and community matters, and the company's employees. The first of these requirements, in particular, will involve forward-looking statements outlining any key factors that have affected already the company's performance or may do so in the future. Companies should now be well on the way to preparing for the publication of the first Business Reviews after the Act was

passed and including this information in the sustainability report as a matter of course will make the selection process for inclusion of issues much easier.

Thames Water's CR Report includes a section which outlines the key activities and challenges for the future. These include regulatory requirements such as those contained in the Climate Change Bill and Water Framework Directive and Thames Water's preparation of its statutory Water Resources Management Plan, as required by the Water Act. It also lays out specific projects that the company will be focusing on in the coming months and years as well as the employee engagement to review the organisational core values and behaviours.

THE 'BIGGER PICTURE' REPORTING

As has been noted in previous ACCA reports of the judges, reporters are still not, on the whole, explaining the 'bigger picture' of sustainable development and how that particular organisation fits into it. It is noticeable that the majority of reports submitted refer to CSR (or variants thereof) in their titles as opposed to demonstrating a clear preference for the term, 'sustainability'. As a result, disclosures still tend to focus much more on the organisation's particular operations and products rather than the wider social and environmental systems within which it operates.

An example of this is that there was little discussion in entrants' reports on the conflict between shareholder wealth and environmental damage resulting from increasing consumption of natural resources – both in the sense of increasing the standard of living in developing nations by provision of energy, telecoms and other goods and services, and increased consumerism in developed nations. This is a fundamental issue in terms of the long-term sustainability of organisations, yet very few mention anything about the wider impact of consumption and the dilemmas it can create. This ties in with the recommendation made earlier on forward-looking statements, in that reporters should be thinking about where the organisation will be in 50 years' time in terms of the long-term sustainability of the organisation's products and services, and how these are likely to change in response to threats such as climate change.

Another element of reporting on the 'bigger picture' is acknowledging that these reports are set within the wider context of sustainable development. Reports should be outlining the wider implications of organisations' activities and giving information such as (for example) how much of the overall global market each organisation's products/services represent.

ROOM FOR IMPROVEMENT: PAST RECOMMENDATIONS STILL APPLICABLE TODAY

Linking strategic plans to sustainability

Organisations should be defining their overall strategy and business objectives in terms of their social, environmental and economic impacts and how to mitigate them. This means disclosing information in sustainability reports to indicate how:

- sustainable development relates to the heart of the business model and is integrated throughout the whole organisation
- the organisation is considering and identifying the dilemmas and challenges it is faced with in implementing the business strategy and associated objectives
- both short-term and long-term plans are being made to mitigate impacts by making the organisation as sustainable as possible
- the organisation is assessing both risks and opportunities relating to sustainability – for example, climate change, labour standards, product innovation and intangibles such as reputational risk.

The converse of this recommendation should also fit into reporting models – organisations should demonstrate how they are defining their social, environmental and economic impacts in terms of the business strategy. The two should be interdependent – business strategy should underlie the content of the sustainability report and non-financial impacts should

feature heavily in business strategy. This concept is discussed in more detail in the 2007 theme report (Chapter 4), which outlines research carried out by Tomorrow's Company, in partnership with ACCA, on the standard of entrants' disclosures on sustainability strategy and governance.

Economic impact reporting

Only a minority of companies are reporting in detail on their key economic impacts, alongside social and environmental ones, yet all three are key elements of sustainability.

Organisations should be discussing how they positively or negatively affect a country or community's economic life through their operations and products. This can include areas such as job creation, using local produce, payments of taxes to government and generally increasing a country's overall productivity. Nonetheless, there are also the more negative impacts that should be discussed, such as the effect on local employment of shutting down a factory or outsourcing services to overseas suppliers, resulting in making local workers redundant, or making a community dependent on a large corporation for its employment and economic development.

Disclosing information on the boundary and scope of reports

Sustainability reports should, ideally, cover 'all entities that generate significant sustainability impacts (actual and potential) and/or all entities over which the reporting organization exercises control or significant influence with regard to financial and operating policies and practices.' (as defined by the G3 Guidelines). All subsidiaries and joint ventures (JVs) that fall under this definition should therefore be included in the KPI

information (preferable in the form of disaggregated data) and in discussions on performance and issues. Any JVs or other entities that are not included in the report's scope should be clearly identified at the start of the report, to avoid misinterpretation of data and narrative disclosures. Reports should also make clear how sustainability performance is managed throughout the organisation from the corporate function right through to business units, and how these all fit together.

Value of assurance statements should be improved

A number of points have been highlighted in previous judges' meetings as being key in assurance statements in terms of their value, readability and credibility. These points include the need for:

- avoiding use of jargon and guarded phrases in statements
- directing the statement at the reporting organisation's stakeholders rather than management
- assessing the materiality, completeness and responsiveness of the report as well as the accuracy of the data
- clearly defining the scope and methodology of the assurance engagement
- stating the assurance provider's independence from the reporting organisation
- making clear recommendations for improvement and commenting on whether previous years' suggestions have been implemented.

Technical recommendations (continued)

As well as the statement from the assurance provider, the judges also recommend that the reporting organisation itself provides some commentary on the assurance engagement, for example, how the scope was defined, what value it has added to internal systems and processes and what progress it feels has been made on recommendations.

Judges also commented that reporting organisations and assurance providers seem to be moving away from the use of more informative statements, (perhaps for litigation reasons) and that the optimum situation is to produce reasonable levels of assurance, rather than limited which is currently the case for the majority of reporters. Another suggestion raised was for companies to put the assurance provider's letter to management into the public domain, so that the report's stakeholders, as well as the internal management representatives, can view the full recommendations made.

ELECTRONIC MEDIA COMMENDATION

As in previous years, while few companies have completely abandoned printed reports, for the vast majority of reporters HTML and PDFs formats now represent the primary reporting vehicle.

Working from the largest number of entries to date, the judges were encouraged to see several previous recommendations acted upon. The best reports included the following characteristics.

- Clear, simple navigation, even when multiple options such as a browsing guide are offered. Adopting tried and tested approaches is preferable to developing a new approach for its own sake – even simple variants such as providing an expandable contents list on the right side of the screen rather than the left can irritate
- A clear hierarchy of drilling down to access increasing levels of details, from overview to specific data. However, reports that used this structure but did not provide real content, leaving the reader unable to find the required content, were criticised by the judging panel
- Easily identified subject matter. Good online reports tend not to be narrative-based, but rely on the 'findability' of relevant information with a minimum of clicks.

Appropriate use of technology

While Centrica plc's CEO's introduction (with viewing options and PDF transcript) and BP plc's online tools were admired, the judging panel also encountered use of technology that was decorative rather than functional (for example a Flash animation which centred on the company logo). Even some technology aimed at improving functionality may not be accessible for everyone (eg mapping tools are sometimes inaccessible for screen-reader users). Reporters should consider that some stakeholders may be home-based, and what works well in an office environment may not work well on an old laptop with a slow internet connection – so irrespective of the purpose of any new technology used, alternatives should be provided where possible.

Accessibility

Several reports benefited from external advice on accessibility, including the Home Retail Group's simple and straightforward report – all judges remarked on the excellent accessibility of this.

It was claimed that one report had been developed using the World Wide Web Consortium (W3C) precepts, although its cluttered, crammed layout, absence of tagged headings and general lack of clarity would suggest otherwise. There is no 'W3C police' but such assertions may rebound on corporate reputation!

Communications

The judging panel has established over several years that clear, elegant design wins over complexity, no matter how functional this complexity might be. Some sophisticated reports were

rejected because too much time and too many clicks were needed before the report scope and boundaries could be established. On the other hand, several reports were liked mainly because of their clear design and structure, notwithstanding their weaker content. BHP Billiton's winning report demonstrates how complex content can be presented in a user-friendly and straightforward manner.

Design

Attention spans tend to be short on the Web. Good reporting needs a different style of writing from that of hard copy publications, with clear headings and short paragraphs.

Reporters should ask the question 'How will the report be used?' If users are likely to want to compile their own reports, then the increasingly widespread use of a customised print-basket is very useful. Please remember that most printers are for A4 format, so pages should be sequential rather than double-page spreads.

Make sure the report is checked and tested. This year the judging panel encountered images in PDFs that were illegible, many untagged PDFs and several non-functioning hyperlinks. A thorough road test is well worth the effort before releasing the report into the public domain.

Reporters can maximise accessibility of their publication by checking the RNIB's *See it Right Guidelines*: www.rnib.org.uk/seeitright

Adobe's guidelines on producing an accessible PDF document are also invaluable: www.adobe.com/accessibility

4. The 2007 theme: strategy and governance

(CARRIED OUT IN PARTNERSHIP WITH TOMORROW'S COMPANY)

tomorrow's
company

INTRODUCTION

Good strategy and governance are just as essential for creating reliable 'sustainability' outcomes as they are for any other aspect of business performance.

The survival and success of every company is now bound up with the health of a complex global system, made up of three interdependent subsystems: the natural environment, the social and political system, and the global economy. In their sustainability reporting, best-practice companies will do much more than simply comply with the emerging minimum standards: they will explain how they see their role and their future success in this fast-changing context; what the milestones are; and what progress they have made. They will base their emerging sustainability reports on strong dialogue with investors and other

stakeholders. They will revisit their definitions of success against the results of that dialogue; they will hold firm to their values. And they will engage more with competitors, government and civil society as they make their contribution to sustainable operating frameworks.

This is a much more proactive stance than that described by the old, more passive 'licence to operate' phrase popularised by Tomorrow's Company over a decade ago. It sets the context for examining how well companies today deal with issues of strategy and governance in their sustainability reporting.

This chapter draws out five key areas on which companies need to focus if they are to earn both the trust and the support of investors, employees and society.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

'Sustainability' is part of normal business: Goldman Sachs said recently 'We view ESG (environment, social and governance) as a proxy for overall management quality'. 'Sustainability' is (or should be) a simple extension of normal business practices for identifying desired outcomes and managing risk.

The strategy and governance of sustainability should therefore be an extension of the strategy and governance of the whole enterprise: through it companies should test all they do (and they report) against the corporate values and strategy, as well as against the expectations of key stakeholders. What is more, creating any business outcome requires understanding, prioritisation, strategy and governance. In looking at 'strategy and governance' within sustainability reporting, therefore, we are really examining the underlying quality of a company's whole approach to sustainability.

Few companies show clearly how sustainability is at the heart of their strategy and governance: of the 76 organisations that made a submission for consideration in these awards only seven delivered a high-quality, coherent and integrated approach across the sustainability governance and strategy criteria outlined.

Rather than winning a passive 'licence to operate', the emphasis is now on 'expanding the space': companies need to demonstrate that they are learning and improving as a result of their

experience and are building a sustainability road map that can give clear accountability for progress. Crucial to this learning will be the company's growing outreach – the best reports will in future show the company co-creating its future sustainability strategy and improving its governance through growing collaboration with competitors, regulators and other stakeholders.

You do not have to be a multinational to do this. Every company's success depends on meeting the needs and winning the support of customers, employees and other stakeholders; and every company will do this best if it is systematic in mapping its interdependencies. Simple steps such as showing how sustainability is integrated into the way a company rewards, recognises achievement, and disciplines its staff can demonstrate that a company is serious about its approach to sustainability.

Getting this right does not need to be complicated. In this chapter five key areas (see page 31 for details) have been identified as fundamental indicators by which the performance of a company can be judged. For companies that want to improve performance, these five factors offer a clear focus for improvement of governance and strategy sustainability reporting. But there is a long way to go: for example, none of the 76 companies were 'excellent' at showing the links between sustainability and remuneration, recognition and discipline, and only 12% were 'good'.

The 2007 theme: strategy and governance (continued)

METHODOLOGY

The criteria

A set of detailed criteria were developed by Tomorrow's Company, with ACCA's input, which covered all the areas of disclosure that were deemed most relevant and material in terms of sustainability strategy and governance reporting. These criteria were split into three key areas.

High-level criteria (H criteria)

These provide the basis for assessing whether a company has articulated what it is setting out to achieve and by what values it will work. Seven key metrics were developed in this area (see page 32), summarising (at a high level) the company's aims and intentions.

Mid-level criteria (M criteria)

These relate to disclosures on the achievements of these aims and intentions. To measure this, 19 detailed criteria were taken from the GRI G3 Guidelines, spread across the six areas most relevant to strategy and governance (see pages 32–33).

Quality criteria (R criteria)

These cover the extent to which the strategy and governance disclosures are communicated in a way that is both understandable to the key stakeholder groups, and balanced and truthful. (In other words, the company should not restrict its reporting to good news only.)

Following this approach, applying weightings and a score of 0–3 for each of the 28 metrics gave a total maximum score of 99.

The process

A total of 76 companies submitted their sustainability reports to ACCA for consideration in these awards. The information used for the analysis included stand-alone sustainability/CSR/social and environmental reports, plus annual reports and web reports, where specifically included in the entry to the awards.

As a first step, all entries were examined using a preliminary overview based on the stated criteria (see pages 32–33) for good performance in sustainability strategy and governance. This included rating how all the submissions had done against the five key criteria.

Through this process the judges identified 15 reports that were strong entries in whole or in specific parts. These were then rated in much greater detail against the full detailed set of criteria, which provided an overall score, and identified further specific examples of good practice.

THE ANALYSIS

In following this process there were five key areas that stood out as being clear indicators of good reporting of sustainability in reference to strategy and governance.

1. A joined-up approach

Is sustainability clearly treated as integral to the organisation's core business approach?

2. Reward, recognise and discipline

Does the company put its money where its mouth is, and tie compensation and discipline to performance against sustainability measures?

3. A balanced story

Does the company report bad news and underperformance as well as good news?

4. Learning

Does the company learn from its results and improve the way it does things?

5. A sustainability roadmap

Does the company report progress in its sustainability strategy and governance over time?

Experience from judging reports during this process and in previous work suggested that these five elements together give a comprehensive appraisal of a company's approach to strategy and governance in relation to sustainability reporting. We can expect companies that do a good job at reporting in these five areas to be doing a good job at reporting sustainability strategy and governance overall.

Companies that want a short-cut to improving their sustainability strategy and governance can therefore focus on these areas, and be confident that they will provide the building blocks for the rest to follow.

Over the following pages, detailed observations in each of these areas are followed by some general conclusions and recommendations.

The 2007 theme: strategy and governance (continued)

Tomorrow's Company criteria

These answer the question, 'Does the company articulate what it is setting out to achieve?'

H1: Mission and values

A clear statement of the leadership, purpose/mission and values of the organisation.

H2: Strategy and success model

A clear high-level statement of the strategy or success model of the organisation.

H3: Key relationships

A clear statement of the organisation's key relationships or stakeholders.

H4: Measurement

Clear and appropriate measurements of the material parts of the success model and the quality of key relationships.

H5: Communication reporting dialogue

Evidence that communication/dialogue has had an impact on one or more key relationships and has led to different outcomes/results.

H6: Change what the organisation does

Evidence that the organisation learns from the past and changes its processes to adapt to a changing world.

H7: Stewardship over time

An account of how the company's stewardship has changed over time.

GRI G3 criteria

These answer the question 'Is the company implementing what it set out to achieve?'

M1: Statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and its strategy

This should include:

1. strategic sustainability priorities and key topics for the short/medium-term
2. broader macro trends affecting the organisation and its sustainability priorities
3. key events, achievements and failures during the reporting period
4. views on performance with respect to targets
5. outlook on the organisation's main challenges and targets for the next year and goals for the coming 3–5 years
6. other items pertaining to the organisation's strategic approach.

M2: Description of key impacts, risks and opportunities

One section should focus on the organisation's key impacts on sustainability and effects on stakeholders, and should include:

1. a description of the significant impacts the organisation has on sustainability and associated challenges and opportunities

2. an explanation of the approach to prioritizing these challenges and opportunities
3. key conclusions about progress in addressing these topics and related performance in the reporting period; this includes an assessment of reasons for under performance or over-performance
4. a description of the main processes in place to address performance and/or relevant changes.

A second section should focus on the impact of sustainability trends, risks and opportunities on the long-term prospects and financial performance of the organisation, including:

5. a description of the most important risks and opportunities for the organisation arising from sustainability trends
6. prioritisation of key sustainability topics as risks and opportunities according to their relevance for long-term organisational strategy, competitive position, qualitative, and (if possible) quantitative financial value drivers
7. table(s) summarising targets, performance against targets, and lessons learned, both for the current reporting period and for the next reporting period, and mid-term objectives and goals (ie 3–5 years).

M3: Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight

M4: Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements), and the organisation's performance (including social and environmental performance)

M5: Processes in place for the highest governance body to ensure conflicts of interest are avoided, and for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics

M6: Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance

GRI G3 reporting quality criteria

These measure the general quality of the report.

R1. Clarity

Information is reported in a way that is understandable and accessible to stakeholders.

R2. Balance

The report should reflect positive and negative aspects of the organisation's performance, to enable a balanced view.

The 2007 theme: strategy and governance (continued)

Overview

Of the 76 reports submitted to ACCA, Tomorrow's Company commends the following seven companies as providing excellent reporting of sustainability strategy and governance:

Anglo-American	Extractive industry
Rio Tinto	Extractive industry
BHP Billiton	Extractive industry
Vodafone	Communications
Boots	Retail
Xstrata	Extractive industry
Camelot	Lottery

Other companies showed good performance in specific areas, but these companies stood out in their consistently high standards across all the measures considered.

Examining the companies on this list gives strong clues as to the value and importance of good strategy and governance, and of sustainability.

Four of the seven companies are in extractive industries. The work these businesses are engaged in has high health and safety risks, often has a high impact on the environment, and has highly visible impacts on a range of key stakeholder groups. Good sustainability performance and reporting is therefore integral to the performance and reporting of these businesses. As BHP Billiton puts it very neatly on the cover of its sustainability report:

Healthy People + Safe Workplaces + Environmental Commitment + Social Responsibility + Economic Contribution + Sound Governance = Licence to Operate

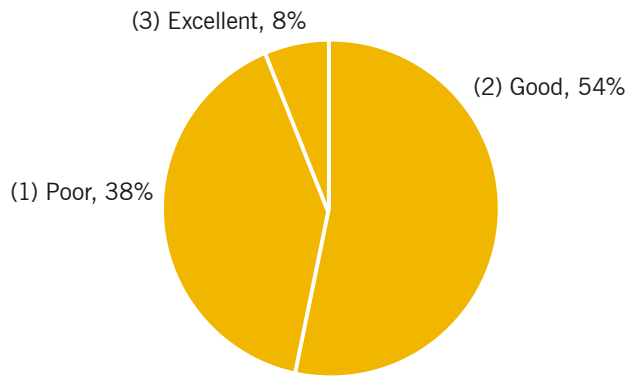
Camelot is in a different but comparable situation: the regulator's renewal of its licence depends clearly on its ability to earn and maintain trust and to manage well a number of key stakeholder relationships, especially as Camelot does not own the retailers who sell its products. While operating efficiently, it also needs to show that it is acting responsibly in making sure that customers do not buy too many of its products (how many other businesses can say that?). As a result, it is in the company's interest to focus very clearly on the relationships it has with those stakeholders, set targets for each, and manage them closely against key metrics.

These are acute examples, but ultimately all companies face a similar situation. Their 'licence to operate' is also renewed on a daily basis, every time a customer, employee or any other stakeholder decides whether to re-engage with that company, or switch support to a competitor.

1. A joined-up approach

The first criterion is therefore: does the company follow a joined-up approach? Is sustainability clearly treated as an integral part of the organisation and its strategy?

Figure 4.1: Scores (0–3) of the 76 reports assessed



Note: 0% scored 0 (Not present).

Many of the reports (over one-third of the total 76) we looked at seem to treat sustainability as somehow separate from the 'real' activity of running the business. They seem to see corporate responsibility as a series of boxes to be ticked. One company outpacing the pack and showing what a short-sighted view this is Boots, the health and beauty retailer.

Boots has built a complete new branding and strategy around the concept of 'Trust Boots'. 'Trust Boots', the firm says, is:

'much more than just a slogan, it's a concise statement of our entire corporate strategy... There, in that single word, our CSR and commercial goals converge. After all, why would anyone trust us to advise them on, say, how to manage their child's asthma if they had seen Boots being a bad neighbour in the local community, or showing disregard for the health of the environment?'

This summarises the importance of a joined-up approach. And choosing the word 'Trust' clearly signals that what is important to this company is not its quality of service, or low prices, but the quality of the relationships it builds with the people who contribute to its success.

It is easy to put good words in a CEO's statement, but Boots scored as 'excellent' in this area, because time and again throughout the report there were specific examples of how this stated intention was translated into practice. This is shown both at a strategic level:

'For us, a key aspect of CSR involves predicting and planning how we will manage future risks to our business, from changes in the make-up of the population which will affect both our customer base and our workforce, to the urgent need to find replacements for the petrochemical-based ingredients used in many of our products'.

The 2007 theme: strategy and governance (continued)

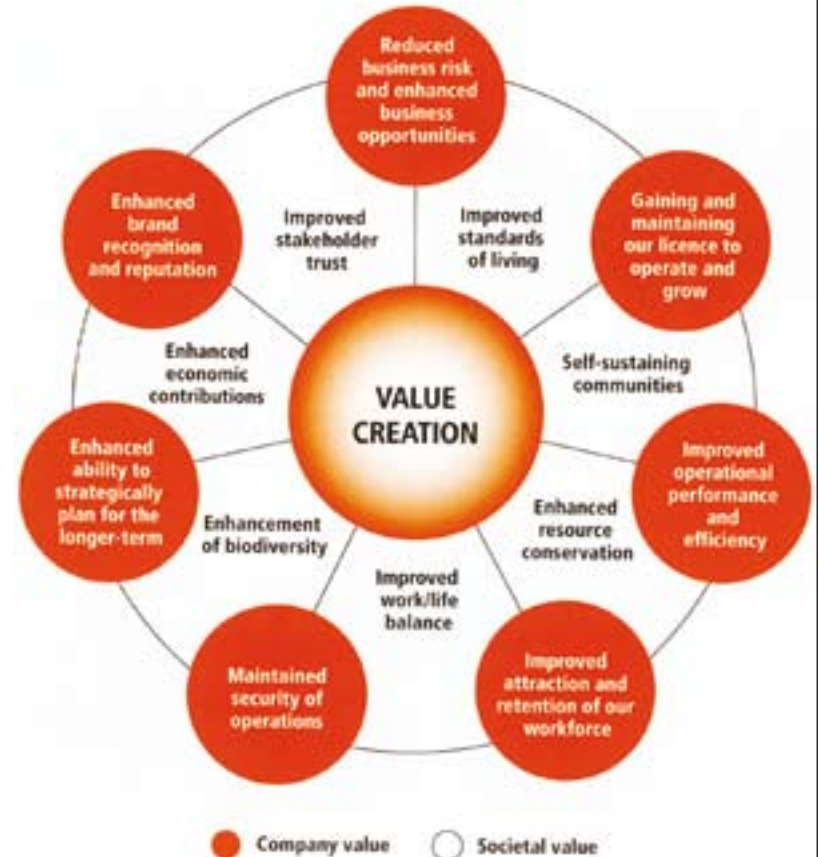
It is also clear at an operational level:

'Crucial to our approach is the belief that sustainable principles must be totally integrated into the new product development (NPD) process... Each new product development project now undertakes a risk assessment, using a model which assesses potential risk against sustainability criteria, enabling improvements to be made throughout the development process'.

This is what Tomorrow's Company means by the importance of redefining success and embedding values. Boots also has an extremely well-laid-out report. The page format is around half the size of the other reports, but the structure and layout are extremely clear. This, in itself, enhances trust.

Another example is BHP Billiton's diagrammatic interpretation of integrating CR with business success (see Figure 4.2).

Figure 4.2: BHP Billiton's diagram showing integration of CR with business success.

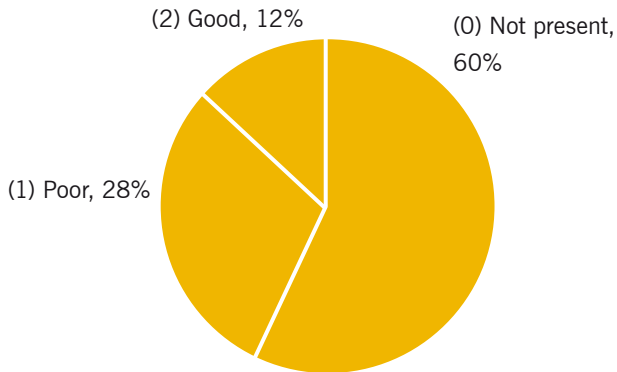


Source: 'Licence to Operate' BHP Billiton's Sustainability Report
BHP Billiton (2006), p. 6.

2. Reward, recognise and discipline – the bottom line

If a company is truly serious about building sustainability attitudes and behaviours into its business, then remuneration, reward and discipline must depend on performance against sustainability targets – both at board level and throughout the company. From the reports submitted very few companies (12% of the 76 were good, with none being classified as excellent) made explicit links between remuneration and sustainability governance and strategy.

Figure 4.3: Scores (0–3) of the 76 reports assessed



Note: 0% scored 3 (excellent).

For Boots 'all members of the executive now have CSR goals written into their objectives.' In addition:

'to maximise accountability, individual 'issue owners' have specific CSR goals written into their personal objectives, and their performance against these is taken into account in their regular appraisals'.

For Xstrata,

'a high proportion of total remuneration is 'at risk' and performance related, incorporating demanding short-term and long-term financial and non-financial performance measures'.

Several reports made statements at this general level. Xstrata goes on to say that:

'HSEC [health, safety, environment and community] performance determines a proportion of all operational and senior management bonus awards. The proportion varies between commodity businesses and regions and is determined by commodity business executive teams and reviewed by the commodity business Board. In South Africa, where the vast majority of fatal accidents have occurred, HSEC performance typically accounts for 40–60% of total performance bonuses. For mine supervisors and operational employees, this proportion is usually greater (up to 80%)'.

In other words, the company treats this seriously: it has thought about what measures are relevant for which parts of the business; it has involved managers at operational and senior levels; these have worked together to determine how to relate pay to HSEC performance; there is a greater correlation in areas where this will have the most impact on outcomes/performance.

The 2007 theme: strategy and governance (continued)

Anglo American goes further:

'In our managed operations more than 540 people, including 27 managers, were dismissed or resigned following breaches of the business principles. [The company also] terminated the contracts of 175 suppliers and contracting companies or removed them from lists of approved suppliers for breaches of our standards'.

This ability to take tough decisions on the basis of long-term values and principles is what we looked for here. This specific example also illustrates our next key criterion: the integrity to report bad news as well as good.

3. Not just good news – bad news too

If a company only reports 'good news' it must be for one of two reasons. Possibly there is no 'bad' news to report, because the company met all its targets. In that case the company is not trying as hard as it could. Alternatively, the company failed to reach some of its goals but is choosing not to report this. In this case the company is not serious about having a quality, adult relationship with its stakeholders.

In both cases we must deduce that the company is not truly serious about sustainability.

This is why strategy and governance in general, and this metric in particular, are good indicators of a quality approach to sustainability.

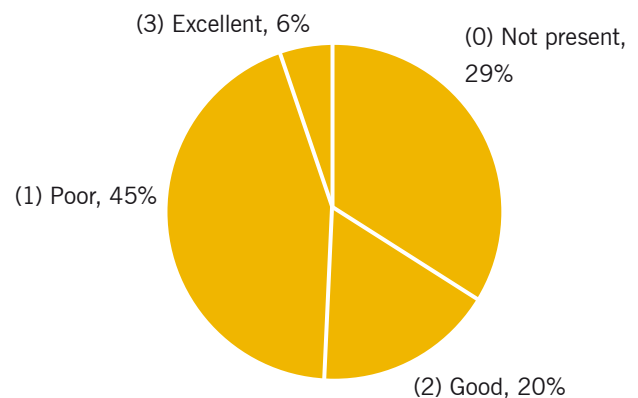
Anglo American showed that it is serious about its sustainability

principles. In the above example, where they had 'fired' 175 suppliers or contractors, the report goes on to say

'We cannot be certain of the reason for the scale of the increase, from 10 and 15 in previous years, but it seems likely to flow from improved surveillance and monitoring of supplier and contractor performance'.

Reporting bad news implies that there are good systems and processes in place to gather the information. Good data enable good management. This, in turn, is an indicator that we can expect good performance from the company over the longer term – it is an indicator of 'bench strength'. For this to be true, the company must also take its 'bad news' and use it to improve its operational performance. This is looked at under the next criterion.

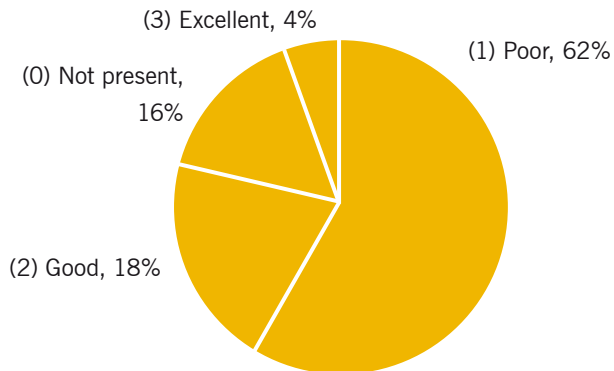
Figure 4.4: Scores (0–3) of the 76 reports assessed



4. A journey not a destination – learning and improvement

To win the confidence of stakeholders, companies need to demonstrate that they are learning and improving from their experience, and from the feedback loops that good governance provides.

Figure 4.5: Scores (0–3) of the 76 reports assessed



Anglo American shows how measures of lost time and fatal accidents are analysed to change working practices:

'Managers at Kumba's Sishen iron ore mine identified the potential risk that a worker could fall into the primary crusher during inspections and maintenance... A life-line with a roller impact lock-system, similar to car safety belts, has been developed and tested by the South African Bureau of Standards... All incidents are investigated by the business unit

concerned and the relevant authorities and are analysed to establish both cause and remedy. During 2006, the safety principles were incorporated into a new framework for the management of safety in the Group...'

In other words, not only do individual business units learn and improve, but the learning is also shared between business units.

Sustainability is about more than just improving operational practices. It is also about improving relationships with 'external' stakeholders.

Some reports do not even mention who the company's stakeholders are. Many give the impression that stakeholders exist merely to be informed of what the company has decided. Only a leading few clearly understand that to create a sustainable future for the business they need to engage with and listen to their stakeholders, and then do things differently as a result.

Vodafone, for example, explains in detail over two pages how it engages with stakeholders, why this is important, and what the results have been.

Xstrata describes how 'Issues raised by stakeholders are incorporated into our assessment of our key sustainability challenges and the topics included in this report', and gives a full page over to a case study of 'stakeholder engagement' relating to the conversion of a mine in Australia. This not only describes in detail how the company went about talking to the relevant stakeholders, but also lists eight specific additional actions that

The 2007 theme: strategy and governance (continued)

the company took as a result of this dialogue. The company also states that it will continue:

'to engage in two-way dialogue to ensure maximum transparency, to proactively seek community input and to continue to respond to issues and concerns raised'.

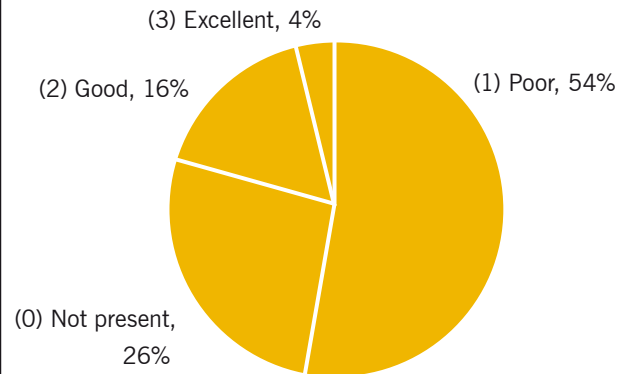
This brings us to the final key metric: the ability to improve a sustainability approach over time.

5. Sustainability roadmap – the historical perspective

The reports which we looked at vary in the assumptions the organisations make. Some organisations seem pleased to record a number of charitable events. Some seem happy to pass through the process of compliance with externally set standards. Only the best understand that good sustainability starts with clear values and is about a successful business model, identifying the stakeholder groups who can affect the success of that business model, and then engaging in open, honest, and not one-sided relationships with those stakeholders, in light of those values.

Such a strategic approach can only be judged over a number of years. The best companies will identify their sustainability roadmap and its milestones, and their governance will ensure that they hold themselves accountable for progress. Their reporting, in turn, will explain the process clearly.

Figure 4.6: Scores (0–3) of the 76 reports assessed



Rio Tinto is a good example. Engagement with stakeholders leads to the identification of issues. These are then filtered and prioritised for materiality to the business. The top issues are then reviewed and 'embedded in Rio Tinto's strategic and governance processes'. If issues change, governance and strategy processes must also change. Reports on the issues are then published, and lead to re-engagement with the key stakeholders. The whole cycle then repeats (see Figure 4.7). This company also gives examples of other ways in which it seeks constantly to improve its strategy and governance processes.

Other companies achieve this in a different way. Camelot explains the management and governance process through the responsibilities of its board, corporate responsibility board, and a

Figure 4.7: Explanation of Rio Tinto's 'sustainability roadmap'



Source: *Sustainable Development Review 2006*, Rio Tinto, p. 3.

number of advisory panels and consultative forums. It also explains what steps it has taken in response to the recommendations made by external auditors in the previous year. Boots presents a timeline showing how its sustainability approach has changed over time, from its founding in 1849 to the present day.

Whatever the approach, we can be sure that companies that understand the need to change and improve their sustainability governance and strategy, also understand the need to improve their sustainability, as a core part of their way of doing business.

RECOMMENDATIONS AND WAY FORWARD

'Sustainability' issues can seem like relatively new arrivals on the scene. In fact, they cover issues that have always been with business (how to win the support of customers, employees, and investors) but over a broader range of criteria which reflect the interdependency between any company and the social, political and environmental systems of which it is a part.

What is different now is the level of competition and visibility. Investors, customers and employees have more choices and reports will be scrutinised more critically by experts and media for gaps between words and deeds.

The 2007 theme: strategy and governance (continued)

Companies need to redefine success, ensuring that their long-term approach matches the needs of society. A good sustainability policy depends upon clear strategy and good governance. Getting this right does not need to be complicated. In this chapter we have provided some evidence of best practice that is already taking place and below are some recommendations for how companies can improve for the future, based on the five focus areas.

1. Take a joined up approach

Treat sustainability (and its reporting) as integral to the organisation's core business approach. Sustainability should be seen as a simple extension of normal business practices for identifying desired outcomes and managing risks. Test all that you do against the values of the organisation, and ensure that in all you do, you are respecting and reflecting the values that make your organisation unique.

2. Reward, recognise and discipline in line with sustainability targets

Show how remuneration, reward, recognition and discipline depend on performance against sustainability targets – both at board level and throughout the company.

3. Give a balanced story of good and bad news

Reporting bad news, as well as good, will earn trust and show that the organisation's antennae are sensitive, with good systems and processes in place to gather the information. Good data enable good management. Scan your draft report for signs of spin and hype – use external readers to protect against complacency.

4. Show how learning is driving improvement in the future

Demonstrate that learning and improvement are taking place as a result of experience, and from the feedback loops that good

governance provides. Set clear improvement targets and make them public to give your organisation the impetus to improve.

5. Build a sustainability roadmap to give clear accountability for progress

Identify a sustainability roadmap and its milestones, and ensure that you have installed the panels, forums, or advisory processes that hold the company accountable for progress. When reporting, explain the process clearly.

Together these form a sound approach to strategy and governance reporting, and can enable any company to chart a clear course through what seem a maze of options.

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Roger Adams, Executive Director – Technical, ACCA

5. Contributing organisations

OUR PARTNER



CorporateRegister.com is the global CSR resources website. It hosts the world's most comprehensive directory of CSR and sustainability reports, profiling over 16,000 reports worldwide. With an archive stretching back to 1990 it is indispensable for anyone working in the field of CSR and sustainability reporting.

Working with some of the leading organisations in social responsibility, CorporateRegister.com hosts several official reporting registers. Further site features include a fully searchable directory of over 3,500 organisations ('reporting partners') actively involved in CSR reporting. In September 2007 CorporateRegister.com launched the world's first online CR reporting awards, the CRRRA 2007 – see www.reporting-awards.com

www.corporateregister.com

OUR ENDORSER



AccountAbility is the international non-profit membership organisation established in 1995 to promote accountability innovations for sustainable development. Members include businesses, NGOs and research bodies, who elect an international Council, with representatives from Africa, Asia, Europe and the Americas. AccountAbility's innovations include 'world firsts' such as: the AA1000 Sustainability Assurance and Stakeholder Engagement Standards, the Partnership, Governance and Accountability Learning Network, the Responsible Competitiveness Index covering the links between responsible business practices and the competitiveness of 108 countries, and, in collaboration with csrnetwork, the Accountability Rating. AccountAbility is convenor of the MFA Forum, a multi-stakeholder alliance building competitiveness and improved labour standards in global textile supply chains. AccountAbility also convenes the Global Leadership Network of businesses committed to aligning corporate responsibility with business strategy.

www.accountability21.net

Contributing organisations (continued)

RESEARCH PROVIDER



EIRIS is the leading global provider of independent research into the social, environmental and other ethical performance of companies. EIRIS, a UK-based organisation with an office in the US and a representative office in Japan, together with its international research partners has a wealth of experience in the field of socially responsible investment- research. EIRIS provides comprehensive research about more than 2,800 companies in Europe, North America and the Asia Pacific region. EIRIS is already retained by 70 institutional clients, including pension and retail fund managers, banks, private client brokers, charities and religious institutions across Europe, the US and Asia.

A not-for-profit organisation, EIRIS does not investigate companies' financial status but looks at their social, environmental and ethical policies and practices. Increasing interest in socially responsible investment has seen EIRIS continually expand its range of services for an ever-increasing number of clients. The past 24 years have seen the organisation grow from two employees to a staff of over 40.

www.eiris.org

OUR SPONSOR



KPMG is a global network of professional services firms whose aim is to turn knowledge into value for the benefit of its clients, its people, and its communities. Its global approach to relationships and service delivery helps clients exploit new opportunities, improve performance, manage risk and generate shareholder value.

Through its Carbon Advisory Group KPMG provides insight and solutions to help businesses understand and manage the full implications of climate change. By drawing on its full range of services across Audit, Tax and Advisory KPMG helps its clients not only to plan ahead from a strategic and regulatory perspective but also to create an efficient low-carbon business.

www.kpmg.co.uk

OUR THEME PARTNER

tomorrow's company

Tomorrow's Company has been at the forefront of business thinking for over a decade – a think-tank whose thoughts lead to action. A not-for-profit membership organisation which started in the UK, Tomorrow's Company publishes research, brings practical business people together to generate and share ideas, puts those ideas into the public domain and influences decision makers across the world in companies, the investment community, stakeholder groups, business schools and government.

Tomorrow's Company deals not only in ideas but in implementation, working with companies as they put new thinking into practice. Every piece of work is grounded in the reality of business and tested against the prospects for its execution.

Tomorrow's Company was established as a result of an agenda-setting inquiry undertaken by the UK's RSA (Royal Society for the Encouragement of Arts, Manufactures and Commerce) in the early 1990s, led by Sir Anthony Cleaver.

The inquiry report – *Tomorrow's Company* – advocated 'the inclusive approach', arguing that the successful businesses of the future would establish long-term relationships with all stakeholders, rather than focusing on short-term returns for shareholders. The *Tomorrow's Company Report* has been the inspiration for many company change programmes and contributed to the recent changes to UK Company Law in relation to the duty of directors.

Since 1995 Tomorrow's Company has helped set the agenda for business leadership, the role of business in society, company reporting, corporate governance and the future of investment.

The latest international inquiry and subsequent report – *Tomorrow's Global Company: Challenges and Choices* – was the result of two years of deep dialogue and extensive research by an inquiry team of senior figures from companies and civil society organisations based in Europe, Asia and North America. The report explores the challenges and opportunities for tomorrow's global business, the conditions for its success and profit, and the implications these will have for business strategy and leadership.

www.tomorrowcompany.com.

6. About ACCA

ACCA (the Association of Chartered Certified Accountants) is the largest and fastest-growing international accountancy body, with 295,000 students and 115,000 members in 170 countries. Our mission is to be the leading global professional accountancy body by reputation, influence and size, offering the first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We use our expertise and experience to assist governments, donor agencies and professional bodies to develop the profession. ACCA aims to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

ACCA national awards

The combination of ACCA's work in improving the accountability and transparency of business and the success of the UK Awards in communicating these values to organisations has led a number of national ACCA offices to set up award schemes of their own. ACCA is now involved in reporting awards in more than 20 countries throughout Europe, Africa, North America and the Asia-Pacific region. ACCA award schemes are now established in Sri Lanka, Pakistan (in partnership with WWF), Malaysia, Singapore, Hong Kong, Australia and New Zealand, South Africa, and North America (in partnership with Ceres).

Launching award schemes in a number of countries around the world has helped raise the profile of corporate disclosure issues within those countries and among their national organisations.

The ACCA Awards serve to encourage non-reporters to publish information on their impacts and, ultimately, to help underline the business case for sustainable practices and development.

Accounting & Sustainability e-Newsletter

This publication, issued on a quarterly basis, provides a comprehensive guide to developments in accounting and sustainable development. The e-newsletter covers issues such as:

- management accounting, accounting for externalities and environmental finance
- environmental taxation and other legislation
- sustainability, environmental and social reporting
- third-party verification
- developments in standardisation, and
- socially responsible investment.

To receive e-mail notification of future issues, please register at www.accaglobal.com/sustainability

The European Sustainability Reporting Association (ESRA)

1996 saw the launch of the European Environmental Reporting Awards, which were founded by ACCA and accountancy bodies from the Netherlands and Denmark.

These European Sustainability Reporting Awards were held for 10 years, until 2006. In that decade a vast improvement was witnessed in both report numbers and quality of reporting. In 2006 the European partners were involved in a new project, focusing on sharing European reporting developments and best practice, from both a country-specific and regional perspective. The results of this new, informative study were published in March 2007 and can be viewed at www.sustainabilityreporting.eu. The second cycle of the project for 2007 is underway and is expected to be in the public domain by March 2008.

Social and Environmental Committee

ACCA's Social and Environmental Committee aims to bring together key players in the environmental and social fields to address relevant developments and issues concerning this aspect of accountancy.

Fédération des Experts Comptables Européens (The European Federation of Accountants, FEE)

ACCA has been involved for many years in the environmental- and sustainability-related work of FEE, together with representatives from other accountancy bodies across Europe. Work in this area includes promoting the role of the accountancy profession in, and stimulating debate on, sustainability accounting, reporting and auditing as well as encouraging pan-European studies and research programmes and disseminating their results, and representing the European accountancy profession at international level on environmental and social issues.

www.fee.be

ACCA social and environmental research

A number of research projects have been funded by ACCA and these are listed in the *Research Publications Catalogue*. Issues researched include sustainability accounting in local government, social and environmental reporting, ethical investment, full cost accounting, social capital, and ecological footprint analysis.

www.accaglobal.com/research

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