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SustainAbility



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



Lightbulbs are switching on in CEO brains. In the two years since our 2004 benchmark survey *Risk & Opportunity*, the spotlight has expanded to encompass not only corporate risk but also market opportunity. Companies like BT, General Electric and Wal-Mart are helping change the game by beginning to build sustainability factors into their competitive strategy. *Tomorrow's Value* signals the start of the coming race to demonstrate that sustainability strategies, performance and reporting can deliver – and are delivering – value and competitive benefits.

Signs of spreading illumination

- The pack of new entrants storming up our 50 Leaders chart, suggesting that the appetite for innovation in reporting continues to grow.
- Value creation is increasingly surfacing as a theme in reports and their titles, as in the 2005 Philips report *Creating Value*.
- Our top-scoring company defines the 'third generation' business case as focusing on the marketplace, solutions and support for competitive bids.
- Leading corporate reporters are now expanding their coverage to embrace emerging economy issues, but they are being outflanked by a small but growing number of non-OECD companies which have ambitions to develop powerful brand positions as they break into international markets.
- As a result, companies seen to be overly focused on accountability and risk could find themselves marked down as laggards at a time when mainstream markets are switching on to challenges like climate change and carbon trading.
- True, robust risk reporting is increasingly the baseline expectation of investors, but alongside downside risks, financial analysts are becoming more interested in upside opportunities for market growth, market share and profits.
- The 2006 pack score relatively low in terms of their efforts to educate the investment community on the value of sustainability-related performance, but at the same time new types of entrepreneur, in 'cleantech', 'greentech' and social enterprise, are attracting growing support not only from philanthropists but also from venture capitalists and financial institutions.
- So, at a time when some of the fizz may be going out of corporate reporting, how can business leaders recharge the agenda, and communicate their commitment to innovation and scalable sustainability solutions? This challenge will be addressed in more detail in a separate Global Reporters publication, due out in 2007.

Executive Summary

Tomorrow's Value, SustainAbility's fourth international benchmark of corporate sustainability reporting, has once again been developed in partnership with the United Nations Environment Programme (UNEP) and Standard & Poor's. This year we introduce a revised methodology, developed in close consultation with experts and leading corporate reporters, and – in line with our sense that the focus also needs to shift beyond disclosure and reporting to communication – we have adopted a portfolio approach. *Tomorrow's Value* is the flagship document in a suite of publications exploring wider aspects of reporting, including communication with financial analysts and the wider innovation agenda.

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

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

Conclusions

Key findings of the 2006 benchmark survey include:

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

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

Sustainability drills into core business processes. Most so-called sustainability reports only constitute steps in that direction, but there has been a leap in the proportion of companies reporting the integration of sustainability-related factors into core decision-making. A central concept has been 'materiality', helping companies sort the critical risks and opportunities from the background noise. This year at least 80% of companies were rated as integrated on at least one aspect of their reporting, though this result leaves many gaps to be bridged.

How far has the value Lightbulb switched on in corporate brains and boardrooms?

Disclosures on public policy initiatives remain precariously weak. Despite growing pressures, under half of corporate reporters fail to sufficiently discuss and link their sustainability initiatives and commitments to the lobbying activities they undertake – and to the wider influence they exercise, either directly or through lobbying and trade organisations. Only around a quarter (28%) of the Leading 50 reporters covered this area meaningfully. That said, this result is a major advance on previous years.

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

The 50 Leaders

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

The future of sustainability reporting

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

Key recommendations

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

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

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

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

The 50 Leaders

Company	Score %	Rank
BT	80	1
Co-operative Financial Services	73	2
BP	72	3
Anglo Platinum	70	4
Rabobank	70	4
Unilever	67	6
MTR	66	7
Vodafone	66	7
Shell Group	65	9
Nike	64	10
Novo Nordisk	64	10
ABN AMRO Real	61	12
BHP Billiton	61	12
Philips	61	12
ABN AMRO	60	15
HP	60	15
Anglo American	59	17
GSK	59	17
Rio Tinto	59	17
Westpac Banking	59	17
adidas Group	58	21
British American Tobacco	58	21
Kesko	58	21
Watercare Services	58	21
Ford	57	25
General Electric	57	25
Natura	57	25
Statoil	57	25
Lafarge	55	29
Mecu	54	30
BAA	53	31
Veolia Environnement	53	31
PotashCorp	53	33
BBVA	52	34
Daiwa Securities Group	52	34
DSM	52	34
Gap	52	34
SAS	52	34
Migros	51	39
Vancity	51	39
Suez	49	41
Enel	48	42
Henkel	48	42
Nedbank Group	47	44
Fuji Photo Film	47	45
Sony	45	46
KarstadtQuelle	43	47
Seven and I Holdings	42	48
Nissan Motor	41	49
Telus	39	50

Figure 1