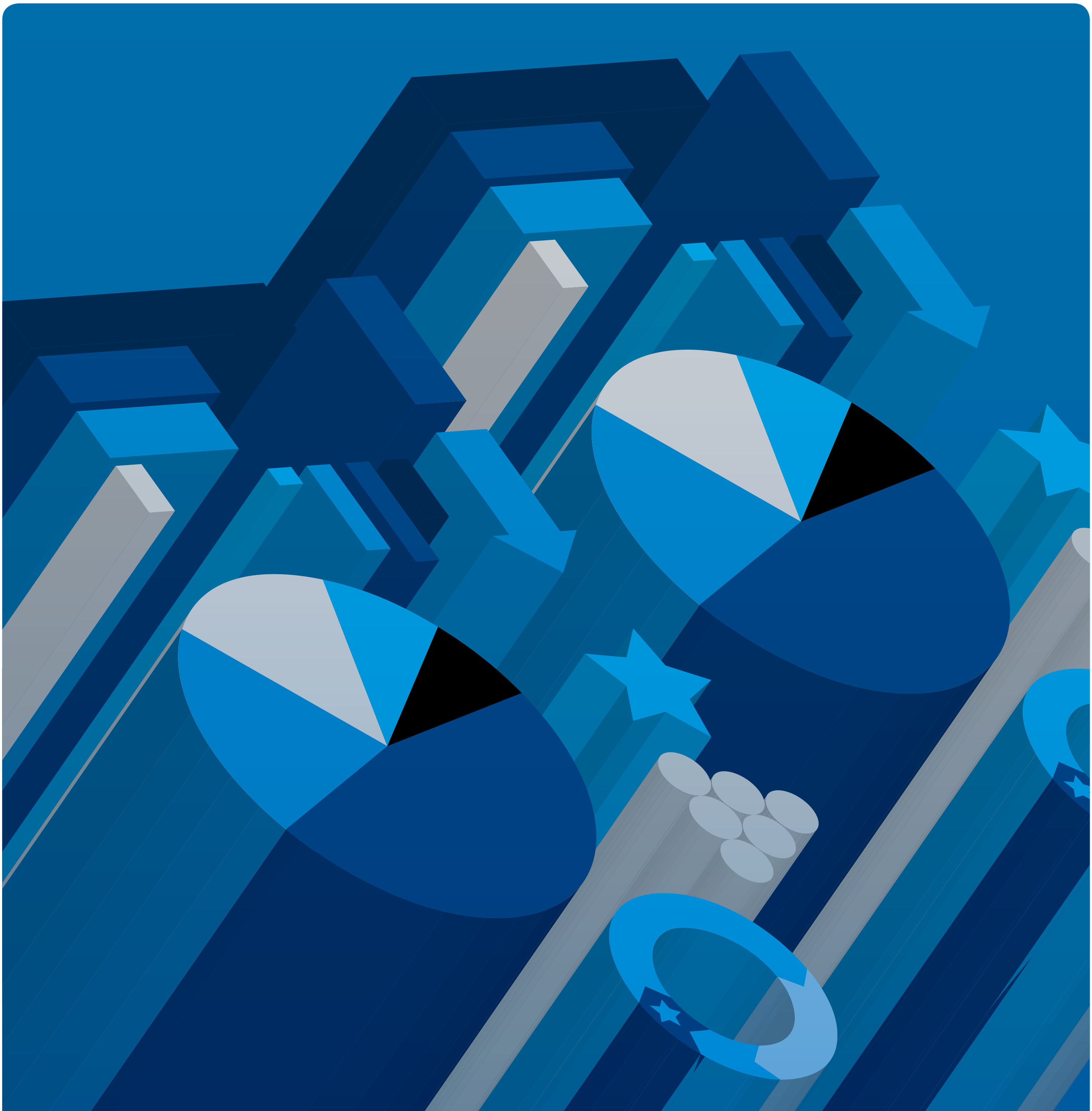


Adding Value Through Sustainability Reporting

Corporate Citizenship

Contents

Foreword

On hearing that his obituary had been published in the New York Journal, Mark Twain is widely attributed with declaring, "The reports of my death are greatly exaggerated."

Today, it would appear that we also need to challenge the wisdom of those who have predicted the demise of sustainability reporting. While the rapid growth in new reports appears to have slowed down a little, the absolute number of companies continuing to report on how they are addressing their economic, social and environmental responsibilities remains at an all time high.

However, it is clear from this research that the current state of sustainability reporting is complex and confusing. For example:

- *While two thirds of companies use social media to get their sustainability messages across, less than one in five think this is a truly effective channel.*
- *The rise of the "integrated report" is taking hold and will have some impact, but according to the practitioners we spoke to its future is far from certain.*
- *Although the Global Reporting Initiative (GRI) remains the most widely used reporting standard, it is not universally embraced even by those who adhere to it.*

Despite this complexity, practitioners are certain that the demand for ethical, transparent and fact-based communications on a company's sustainability performance will continue to grow. Indeed, our research shows that sustainability reporting (as a part of a wider communications process) is becoming an essential component in setting corporate strategy and building stronger relations with stakeholders. In addition, sustainability information is being used more widely by analysts in assessing financial risk and identifying good corporate governance.

Against this background, it is vital to ensure that sustainability reporting reaches the right audiences, with the relevant information, through the most engaging communication channels.

At Corporate Citizenship we advocate a principles based approach to reporting; one that seeks to add value for the business and for its stakeholders. At its heart, the purpose of reporting will remain constant – to provide an account of how the business is performing against its sustainability aspirations. As long as this objective remains central to the process, sustainability reporting will have a vital role to play in driving corporate behaviour.

Andrew Wilson

Director, Corporate Citizenship

July 2012

Executive Summary

Sustainability reporting is changing. Certainly its growth rates are still spectacular and great reports are produced every year that reach out and change the way companies and their performance are perceived. But scratch a little deeper and there is evidence that, for the thousands of reporting practitioners across the world, sustainability reporting is a real challenge. We thought it was time for practitioners to have their opportunity to speak and perhaps influence the direction of reporting. This was the touchstone of research undertaken by Corporate Citizenship in early 2012.

Using an online questionnaire followed by individual interviews we set about taking a snapshot of the current state of reporting as experienced by over 150 practitioners. Among other things we asked them about their reporting audiences, formats used, preferred frameworks, attitudes to integrated reporting and the challenges they faced. We used their responses to test our time-based model of reporting development, to identify current best practice and uncover a future direction for sustainability reporting. We also zoomed in on a number of case study companies where their experience was particularly instructive.

As we expected we found a huge range of priorities and practice. In particular, the relative prioritisation of financial and internal audiences is one with great significance for an integrated reporting world. However, this need to appeal to a diversity of audiences, with a variety of information and different approaches is leading to some anxiety for practitioners.

In our concluding section we set out to find a solution that practitioners can use to resolve decision-making challenges and which will work at whatever stage they are in our model. This value based approach takes the reporting process and breaks it down into four stages. By defining the flows of value at each stage, not only will practitioners have a tool for decision making, a clearer understanding of the value of reporting to the whole organisation will become apparent. To help start reporting practitioners on this journey the report includes five steps to added value reporting summarised here:

1. Recognise the true value of reporting inputs.

2. Develop a robust reporting process based on analysis of value at each stage.

3. Leverage other functions to create a delegated, co-ordinated reporting system.

4. Be punchy, targeted and highly engaging – these are vital characteristics with more devolved communications.

5. Ensure this cycle’s outputs flow into information gathering for the next reporting cycle.

Going forward, Corporate Citizenship will be developing our Value Added Reporting toolkit. Early areas for investigation are decision trees for some of the trickiest reporting decisions suggested by our survey.

1 Introduction

Since our foundation in 1997, Corporate Citizenship has worked on over 200 reporting projects with clients ranging from small, unlisted companies to multi-nationals. Whether on their first or fifteenth report, we increasingly find our clients facing the same questions – why are we doing this? And who will read it?

We strongly believe that sustainability reporting (and its synonyms such as corporate responsibility reporting) is the right thing for most organisations, but it always helps to look at things from the practitioner's point of view. In this research we have asked sustainability practitioners from around the world their views on the value of reporting. We asked them what, why and how they report, what's on their mind in 2012 and what they expect from the future of reporting.

Sustainability reporting is a relatively new discipline. Whereas financial reporting has had 150 years to mature, its non-financial equivalent has only had around 20 years. But in those 20 years we have seen enormous growth. Today around 6,000 reports are produced globally per year, up from less than 20 in 1992. Reporting is still growing with around 950[1] new reporters in 2011 with great interest in North America, Europe and Asia.

In an era of 24-hour news reporting, the internet and now social media, we expect to have access to whatever information we want, whenever we want it. Corporates aren't exempt from these expectations, while simultaneously they are battling with the decline in trust within society. For reporters the challenge is to communicate in a way that is not only accurate and comprehensive, but also demonstrates continuous improvement and innovation.

"In the era of wikileaks, you'd better know what's happening across the business and ID any areas of laggard performance."

Molson Coors

[1] Figures from CorporateRegister.com

2 Waves of reporting

When considering the past, present and future of sustainability reporting our research contributors were quick to celebrate the innovation, diversity of practices and opportunities reporting offered. However their optimism was tinged with concerns around choices, objectives and sense of direction. To help practitioners get a handle on the range of practices and their context, we identified four distinct waves of corporate sustainability reporting. These waves are chronological in two ways: in the way that leading practitioners as a group have developed their reporting, and in the way that an individual company develops its reporting over time. So while 20 years on we are seeing a number of companies pushing the boundaries of their sustainability communications into the fourth wave, we still see debut reporters dipping their toes into practices from the first wave.

For **first wave** reporters, their exploration into reporting means statement focussed outputs that are often driven by providing basic information and compliance. They are sometimes quirky, irregular and often poorly integrated into other business systems. Audience engagement becomes more considered by the **second wave** of reporting as further systems are built onto the compliance groundwork. Reporting frameworks become more important as materiality begins to shift the focus onto key issues. At this point greater regularity, familiarity and the increasing resources going into reporting start to raise its profile to the extent that operating units may even vie for inclusion. By the **third wave**, reporting has become more embedded into business practice. Practitioners have moved on from the all encompassing mega-websites and documents to produce a range of communications targeted at different audiences. It is beginning to be understood that reporting drives performance – the report is not just a passive output but part of a dynamic system. The **fourth wave** sees further evolution, with audience-enabled communications based on social media taking reporters from engaging with stakeholders to interacting with them. Fourth wave reporters realise that telling their sustainability story cannot be a once yearly event – things happen and change all the time and there are stakeholders who will always want to know the business's response. Fourth wave reporters also look to communicate in real time and in doing so sustainability becomes an integral part of daily business practice.

Figure 1: The four wave model of reporting development

1st Wave	2nd Wave	3rd Wave	4th Wave
Reviews and pamphlets	Books and mega sites	Co-ordinated communication suites	Bespoke communications
Weak systems	Add-on systems	Embedded systems	Extended systems
Compliance	and reputation	and performance	and operational change
Anybody listening?	Nobody listening	Enabled dialogue	Interactive communica-tion
Occasional	Annual	Frequent	Real time
Scatter gun	One size fits all	Defined multi-audience	Open access

SITA – Starting out in reporting

As a commercial co-operative, SITA, the international air transport IT specialist, was insulated for some time from the drivers to report experienced by, for example, listed companies. Amber Harrison, Director CSR, explains, "We were required as a supplier to demonstrate our own CSR credentials, and as supply chain evaluations were becoming the norm, it made sense to take a more streamlined approach to communicating externally."

Discussing her decision to report, Amber continues "We knew we needed to start reporting but we lacked a credible framework on which to hang our achievements and activities so it wasn't just seen as marketing spin." The United National Global Compact proved important in this respect for SITA. However pre-reporting challenges came from several sources, as she explains, "We had strong internal support but a less clear understanding of the complexity of moving to sustainability reporting – whereas the more common business processes are much better understood."

For Amber, forewarned does mean forearmed as she recognises that the reporting cycle can bring its own increased expectations, "and will require a huge amount of diligence and commitment." Amber has found that setting the scene for reporting is another important activity, "There's an awful lot of groundwork even in gathering documents and breaking down information in a manner that matches external stakeholder needs. Amber is noticing how the supply chain evaluations are moving from direct questioning along the lines of, "Have you adopted GRI?" To more tangential requests such as, "How do you engage with stakeholders?" For SITA, operating in a highly competitive market, following and understanding these shifts have become a key way that reporting is adding value.

http://www.sita.aero/about-sita/corporate-social-responsibility-at-sita?

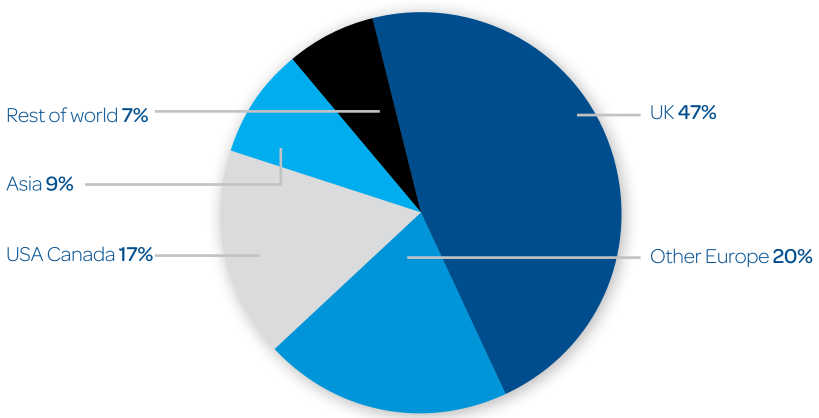
3 About the research

At the core of our research was the belief that any discussion on the future of sustainability reporting had to be closely informed by the experience of practitioners themselves. Understanding their experience followed two phases:

1. An online questionnaire.
2. A series of in-depth interviews with practitioners to discuss the questionnaire findings and tease out current examples of excellence. Interviewees were selected to give a cross-section of reporting practitioners.

In total we received 153 responses to the questionnaire stretching from Iceland, Venezuela and the USA, to Japan and Australia. Following up on the questionnaire we conducted 12 interviews with companies in Germany, Norway, Singapore, UK and USA. Of the 56% of respondents disclosing their country of residence, the UK was the most well represented. After some initial investigation into the effect of geography on survey responses we concluded that this influence was less significant than the individual reporters' development within our wave model.

Figure 2: Respondent – country of residence (where given).



What we found

Through the research we wanted to explore four key questions:

- Why do companies report?
- Who are the audiences for reporting?
- How do they report and what systems do they use?
- How do they see their reporting developing in the future and what challenges do they face?

As well as providing a snapshot of the current state of reporting, the results were intended to test the four wave model and thereby map the ongoing evolution of sustainability reporting through the four waves and into the future. In addition, by going back and revisiting real practitioner experience we wanted to better understand the needs of reporting practitioners and determine how the value of reporting could be increased.

Innovation

To gain a clear understanding of the main purpose for sustainability reporting our survey asked practitioners to choose their top five reasons for reporting from a predetermined list. These options were also ranked by importance.

Analysis of the reasons, ranked either first or second most important by the respondents, were placed into a three fold classification. The two most commonly cited reasons for reporting were as a means of engaging stakeholders and as a way of helping formulate corporate strategy.

"Sustainable development reporting gives a snapshot of performance that can be used both internally to focus on the most material issues and drive improvements, and also by external stakeholders to assess how a company manages sustainable development risks and to monitor performance over time."

SABMiller

Figure 3: Why report?

Premier league	Division One
Stakeholder engagement	Framework for measurement and target setting
Strategy development	Create information resource
	Show corporate commitment
	Promote corporate point of view
	Division Two
	Demonstrate compliance
	Understand impacts and practices

It is encouraging to see that these findings fit well with our four wave model. As we have postulated, reporting is becoming more dynamic and is recognised as a way of engaging and involving stakeholders in corporate practice. Reporting and the processes which support it are also being used to inform practice – what is learnt through the reporting and communication process helps sustainability to evolve within the organisation. So reporting is not simply a means of transmitting information or a tool for measurement, although this more passive approach still resonates with a significant number of our respondents. Of course reporting can be both dynamic and passive – the information is measured and shared, but can still be used to inform and stimulate future practice.

Outside of the sustainability reporting world, there is often scepticism about why companies report – 'they do because they have to', or 'it's just greenwash' might be commonly expressed views. But interestingly amongst our respondents, 'demonstrating compliance' and 'promoting the corporate point of view' came some way down the list of reasons to report.

"Describing the risks and opportunities during report production helps us improve our internal thinking."

Orkla

SABMiller – Driving performance by reporting

Any visitor to the global sustainability website of SABMiller will very quickly discover the company's integrated system of sustainability management – Sustainable Assessment Matrix (SAM). Positioned as 'Ten Priorities, One Future' SAM's webpages are more than just a polished website interface, it is a vertically integrated reporting platform that permeates SABMiller's approach to sustainable development across this global beverage company with operations in over 75 countries.

Across the business SAM's 1 (minimum requirement) – 5 (leading edge) scoring for each of the 10 sustainability priorities means like-for-like information is collated to plot progress against local and group sustainability objectives, while at the same time providing local flexibility to focus on the most material issues in the local market. SAM is used to collect both quantitative data such as water usage, as well as qualitative self-assessed data, for example around responsible marketing. These data are aggregated to give a single score for each priority or, in other words a comparative state of play (as local conditions will differ across the world) as well as absolute performance. Sustainable Development Manager, Hannah Clare, finds SAM, "An incredibly helpful starting point for engagement with all stakeholders." She continues "...internally it drives business performance and makes SD part of the way we do business: whether you work in a brewery, procurement or human resources the ten priorities are part of your day job." SAM's value to the business is facilitated by its twice yearly data collection which Hannah believes, "Helps maintain the sustainability focus and pinpoints in real time where we're doing well and the challenges coming up."

http://www.sabmiller.com/index.asp?pageid=4

Audiences for reporting

Understanding and delivering against audience needs is a challenge which many reporters in our survey struggle with (see page 12 for more on challenges). The challenge begins with deciding on the audiences. In the survey, respondents were asked to rank from a supplied list who they considered to be the main audiences for their reporting. There was also the option to name other audiences not on our list.

The main audiences were fairly evenly split, with internal audiences (both senior and other) rated as most important by 40% of respondents; analysts and financial stakeholders rated as most important by 37% of respondents; and customers rated as most important by 30% of respondents. It's notable that respondents rarely considered opinion formers, consumers or the community as key audiences, with 20%, 15% and 10% of these attracting the 'most important' ratings respectively.

The high rating of internal audiences suggests that reporting is increasingly becoming a more precise tool to stimulate internal change and value creation. In analysing this data it is also worth considering the move toward integrated reporting and the changing role of the sustainability report which is discussed on page 11.

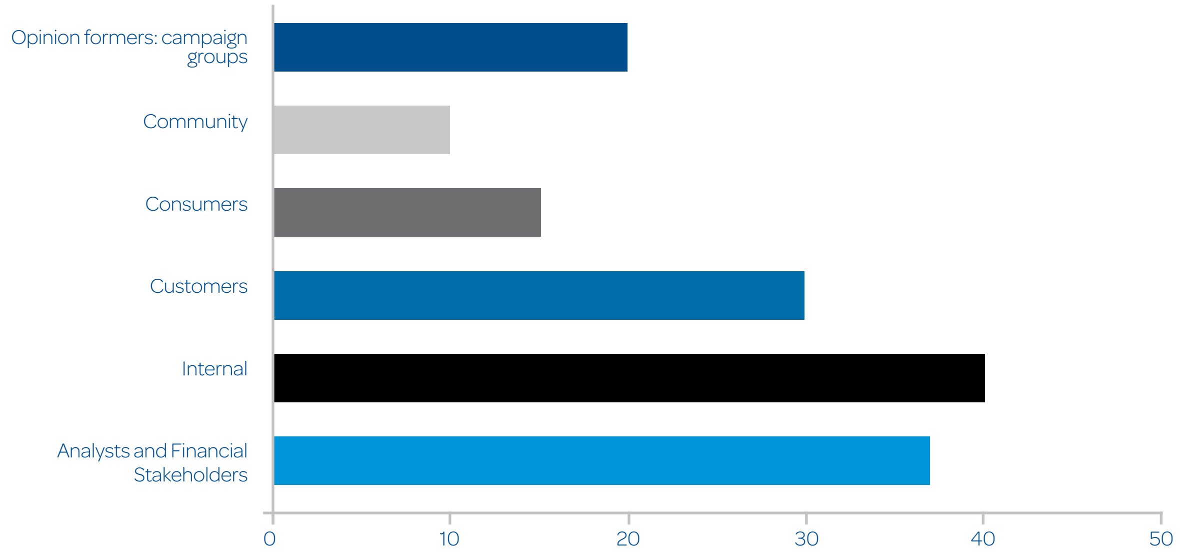
The relative importance of the audiences is clearly dependent on corporate ownership and structure. For privately owned Warburtons, as one of Britain's largest bakers, "All the pressure was from customers including the major supermarkets who had done lots of work on their brands and wanted to know what we were doing." For publically listed Orkla, financial stakeholders were seen as, "A key audience forever for group level reporting." That said, Orkla acknowledges that, "Financial analysts could be less important at a subsidiary level when reporting to business partners becomes more of a priority."

The US Perspective

Our survey results were especially revealing for North American respondents who, it was anticipated, would be less keen on integrated reporting due to the strict reporting requirements of the US Securities and Exchange Commision. Detailed review of survey responses did not support this hypothesis while interviews shed light onto the US approach to Integrated Reporting.

"Increasingly, North American companies are publishing the required 10-K report without the traditional glossy Annual Report. We include sustainability risks and opportunities in the 10-K, but more importantly, link to all our sustainability information from the investor page on our corporate website. That way, investors can get to the detailed financial and non-financial data at the same time."- Molson Coors. American Electric Power have also taken the opportunity provided by their statutory 10-K submission to increase its sustainability aspects while, "breaking down internal silos by moving financial and broad based operating performance reporting into our integrated 'Corporate Accountability Report'."

Figure 4: Reporting principal audience



Arcelor Mittal – A tool for internal sustainability engagement

Internal audiences are some of the most important stakeholders for Arcelor Mittal when it comes to reporting. Part of the reason explains Charlotte Wolff, Head of Corporate Responsibility; "is that without internal audience buy-in there won't be a report at all." For Charlotte, "Reporting is also an important prism to help push ownership of sustainability across the group and encourage functions to realise that transparency brings benefits at so many levels." One way in which participation is encouraged is through an annual workshop where the business has a say in what's reported and why." The success of this approach has brought its own challenges for Charlotte, "The workshop may have raised expectations too much as we hadn't factored in the business's interest to become involved."

Charlotte also sees a real issue of recognition in the reporting process, "How can you make sure that the credit flows back to the right people when you can only perhaps give their issue one page?" Ensuring that the reporting team also receive acknowledgement for its role in delivering change is also on Charlotte's mind. "I need to work hard upwards to explain how hard it is to make a difference and make sure my team gets the credit due. We have a group management board director who we report to, which is incredibly helpful and there's now a real understanding of the value of sustainability reporting by group heads, but sometimes the role of the report is forgotten and our value in pushing the agenda should continue to be recognised. It doesn't just happen by default without these people working away."

http://www.arcelormittal.com/corp/corporate-responsibility/publications-and-reports/reporting-and-assurance

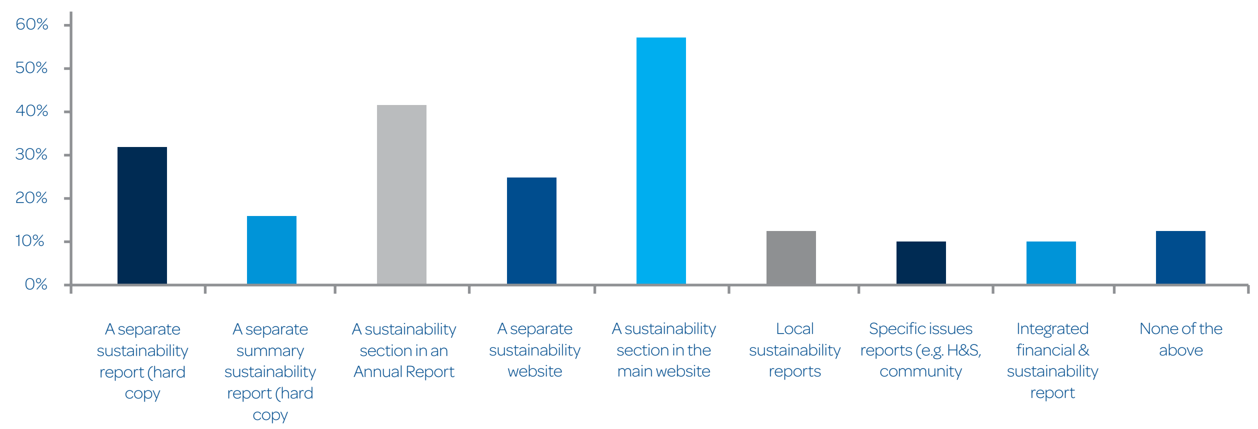
Reporting outputs

We asked our respondents how sustainability performance was reported, giving a range of methods as well as the option to add others not included in our list. According to our model, second wave companies produced stand alone printed reports and mega websites, sometimes containing hundreds of pages of complex information. In the fourth wave we are now seeing leading reporters moving towards diverse communications, tailoring content and formatting to different audiences. Our results support this shift with a wide array of materials now used in reporting and in associated sustainability communications.

We found that the vast majority of our respondents used online reporting with 76% producing some kind of web-based output, either via a sustainability section on their website or through a separate stand-alone site. The prevalence of web reporting suggests that practitioners are focusing on communication methods that are more flexible and immediate than an annual printed report. However support for the hard copy route remains solid with half of survey respondents producing either a separate 'sustainability report' and/or a summary version. As Charlotte Wolff at Arcelor Mittal explains; "I insist on a hard copy report as well as there's so much more scrutiny in this route. People can at times use a website with much less rigour and besides you're more likely to get senior level engagement this way. I can just slam it (the sustainability report) into someone's hand and there's a decent chance they'll read it."

Sustainability sections in annual reports are also important with 43% using this format. We also looked for the most common combinations of the three most popular formats. The two most popular combinations (both 30%) were first online sustainability reporting coupled with a section in the annual report and secondly online and hard copy reporting. Overall consistency between reporting combinations is not strong with only 18% of respondents selecting all three of the most popular options (website /annual report/ hard copy reporting).

Figure 5: Reporting principal audience



Beyond these mainstream channels we asked what other communications media practitioners use to speak about sustainability issues and how effective these are. Reporting rarely occurs in a communications bubble and only 17% of reporters used no other sustainability communications. Overall the most well used approach was the intranet followed by one-to-one / small groups and brochures and briefing notes. All three are well used with internal audiences while briefing notes and one-to-ones are commonly used with the financial community.

The move to more interactive forms of communication in the fourth wave was tested by looking at respondents' experience of social media and video, both of which were used by around 64% of our respondents. Despite the high level of take-up only around 18% of these respondents ranked each as highly effective – well below that for one-to-one/small groups. However, a further 60% (social media) and 65% (video) of users considered them to be effective. It seems that there is some way to go in understanding the potential for these technologies for sustainability purposes.

Figure 6: Use and effectiveness of other sustainability communications media

	Respondent use %	Of which, Highly effective %	Effective %	Low effectiveness %
One to one and small groups	73	41	47	12
Intranet pages	88	22	71	7
Brochures and briefing notes	73	22	64	14
Social media	64	18	60	22
Videos	65	17	65	18
Guidelines and manuals	63	16	65	19
On-pack and consumer focussed information	47	8	58	34
Posters, leaflets, fliers	67	8	62	30

Reporting frameworks

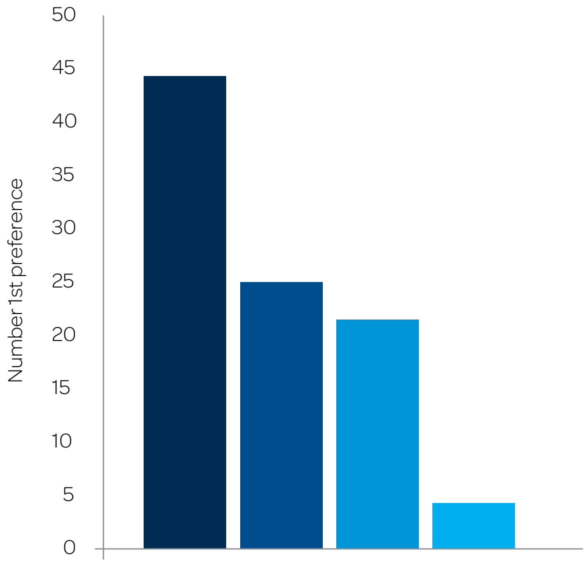
As well as looking at the medium for reporting, we were interested to explore how organisations use external frameworks and structures to shape their reporting. We asked respondents how well commonly used reporting frameworks aligned with their organisation.

For 22% of respondents, the UN Global Compact was a good fit, while 24% found each of the Global Reporting Initiative's (GRI) 3.0 and 3.1 standards to be good fits. Given the potential split vote for the two GRI versions and that some respondents thought more than one framework was an equally good fit, we reconsidered the overall approval rating of the GRI and UNGC. In this instance the GRI was much preferred over the UNGC. Despite the widespread use of external reporting frameworks there was a strong counter-current of around 10% of respondents who did not believe any of the frameworks added value to their reporting.

"The materiality and outreach aspects of GRI provide an excellent tool for companies to also include challenging issues raised by stakeholders into corporate reporting."

Puma

Figure 7: Preference of UNGC and GRI



"There is a sound resistance within the organisation towards reporting on indicators that don't really drive improvement. If GRI becomes a burden without being sufficiently high value to the reporting organisation then its credibility and that of sustainability reporting as a whole is affected. For reporting to be a vehicle for internal improvement you need to be aware of this and ensure that indicators are framed to add value."

Orkla

Integrated reporting

The impact of integrated reporting (IR) on sustainability reporting was a key area for our research. However, in advance of a widely accepted definition of integrated reporting we felt the research would gain most from allowing practitioners to use their own definitions when answering questions on IR. From our earlier survey question on reporting format we discovered that 16% of respondents were already using some form of integrated reporting. To follow up on this response we asked when respondents expected to produce their first integrated report. While a fifth did not anticipate producing an integrated report for at least five years, or until it becomes mandatory, 42% of respondents expected to make the change within the next three years. That is, altogether nearly 60% of respondents expect to be using integrated reporting within three years – a substantial shift.

The survey also asked respondents how their current sustainability reporting would change once they produced an integrated report. A small minority (10%) expected no change in their sustainability reporting while 24% suggest the IR would cover all their sustainability reporting needs. For the remaining majority it seems that the role of sustainability reporting is sufficiently important to guarantee its future. Turning to the majority some exciting changes in sustainability reporting are indicated.

- 47% expect a greater focus on performance reporting.
- 40% see a change in format as being likely.
- 38% believe they will focus on a different audience.
- 32% see a shorter form of report becoming more prevalent.
- 23% expect a more narrative focus for reporting.

In summary, the sustainability reporting of the future will be punchy, targeted and highly engaging. But who will be the audience for these new reports? We can infer that the transformation of annual reports into integrated reports is likely to improve the servicing of financial stakeholders. This suggests that employees and customers, as the other main audiences for sustainability reporting, will be the main beneficiaries of the changes occuring in the fourth wave.

The sustainability reporting of the future will be

PUNCHY, *targeted* and highly engaging

Hammerson – The integrated report alternative

In the past year Anglo-French property manager, Hammerson, have changed their reporting game. "I'm not a big believer in integrated reporting... people think that blending a CR into your AR shows you have integrated CR into your business but this is short sighted," says Head of Sustainability, Paul Edwards. "Don't get me wrong, I'm a big believer in cementing the links between financial stakeholders and corporate responsibility, but I'm not sure a single report is the best way forward, after all, look at the size of an annual report already, what are you going to cut out? In our case our last CR report alone was 150 pages – now that would be a big document." Handling the enormity of sustainability information, while as Paul acknowledges, "No one reads our CR report – some students and a few analysts... it wasn't value for money or value for effort." The key here is focused and relevant reporting, a customer does not require the same information as an employee. In 2010 this led Hammerson to reappraise reporting and to devise "community media" for each of Hammerson's five main stakeholder groups.

Critical to this move was the arrival of an in-house data management system which powers two investor stakeholder focussed reports -the 33 page Hammerson Performance Data Report and 56 page Corporate Responsibility Performance Report which meets Hammerson's GRI and EPRA commitments. What really excites Paul is the potential for moving the system to real data capture. "I want to move to live reporting so that I can pick up my smartphone or iPad and see the updates to our audiences." Paul recognises that, "...making the jump directly to the audience away from the normal CR or integrated reporting ...is a bit of a gamble, but we're going direct to target." The approach Hammerson is looking at for other audiences is likely to include social media and Paul is heartened by the 100,000 friends their 'Bullring' Facebook page has attracted and the success of the z-fold, A6 summary report prepared in 2010. For Hammerson the future of reporting is here and it's happening now.

http://reports.hammerson.com/

Practitioner Challenges

Given the survey's practitioner focus we asked respondents about the challenges they face in reporting. Clearly some reporting professionals still have some hurdles to overcome in gathering and interpreting good quality data and reporting this in a way which meets with external standards. More conspicuous was the sense of frustration experienced by respondents in handling the complexity of sustainability reporting and the difficulty of communicating the right messages in the right way to the right audience. This frustration is a response to the rapid change in practices described in the four waves. Going forward, from what we know about the impact of integrated reporting, it seems likely that uncertainty will continue to be the watchword of sustainability reporting for a little while yet. A key challenge for the future is to find some clarity amongst these conflicting demands and shifting contexts, so that practitioners can move forward with their reporting in a way which continues to meet the needs of their stakeholders. In doing so, reporting should be adding value to its organisation by enhancing relationships with those stakeholders. It should also be dynamic enough to feed back into business practice and transform behaviour where needed. Our task then, is to better determine how reporting can evolve, and support organisations in reaching and navigating this fourth wave. This is explored in the next section.

Puma – Finding the value of data

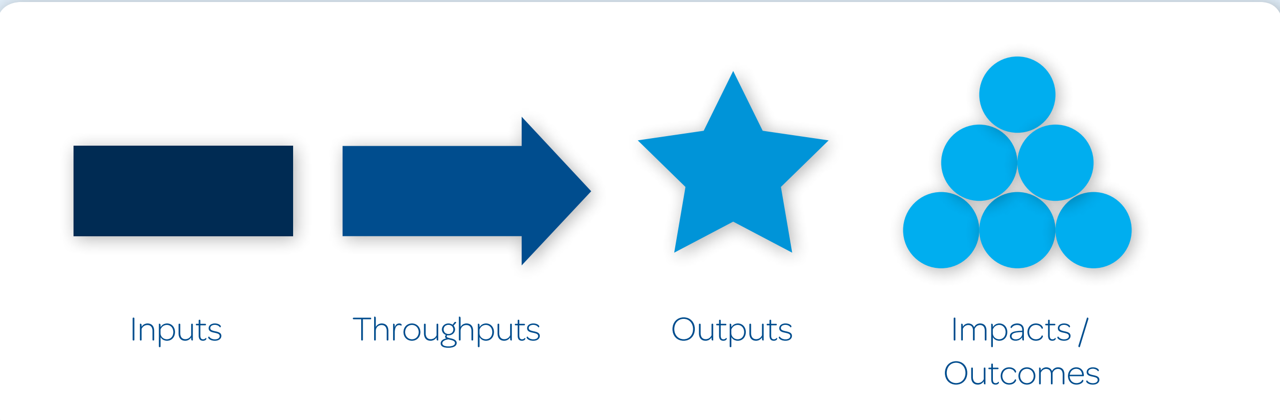
Leading edge sustainability reporting has been deeply embedded at 'Sportlifestyle' brand, Puma for many years. In 2011, Puma wowed the reporting world with its unprecedented Environmental Profit and Loss Account (EP&L) which revealed the full cost of environmental impacts and damages throughout Puma's entire value chain. One year on we caught up with Stefan Seidel, Deputy Head PUMA.Safe Global, to review the motivations and check the lessons learnt. In Stefan's opinion the drivers for the E P&L were straightforward. "Business managers base their decisions on financial figures. Finding out where the impacts lie was the main purpose of the EP&L so we could identify the biggest environmental impacts. This means we are now able to better direct our efforts. We were convinced it was a necessary thing to do." And the rewards from the EP&L have been numerous – both internally and externally. "We received many requests from other companies to share the methodology." Internally, Puma is now aware that the lion share of environmental impact is generated at the lower ends of its supply chain at tier levels 3 and 4. "The problem here is that our influence actually decreases the further we go down in the supply chain." To affect these impacts Puma has recognised that a whole new approach to environmental management is needed. "We are currently internalising the results of our EP&L. At the same time, we are reviewing our existing environmental targets. A major focus will be, for example, choosing the right raw materials and working with other brands and our main suppliers to expand our influence. Going forward other targets are less important such as our own water use, which was calculated at less than 0.1% of the total EP&L water evaluation." Puma is looking to provide an update in earlier 2013.

http://about.puma.com/puma-completes-first-environmental-profit-and-loss-account-which-values-impacts-at-e-145-million/

4 A new reporting model

Our survey has provided a snapshot of global sustainability reporting in 2012, and substantiated our wave model. However the question remains, how can practitioners increase the value obtained from sustainability reporting now and in the future? A systems approach is a useful lens through which to analyse reporting. It has the advantage of simultaneously simplifying reporting down to flows of value and information and is universally applicable to all report production processes.

Figure 8: Flows in the reporting process



Within the reporting process we identified four key stages. Without the original inputs or content, reporting would have nothing to say. However, it's the structures, frameworks and narrative added – the throughputs – that transform the inputs from raw content into something precious – the output report. However, it's the change brought about by the outputs – the impacts/outcomes where the value of the whole reporting process is generated.

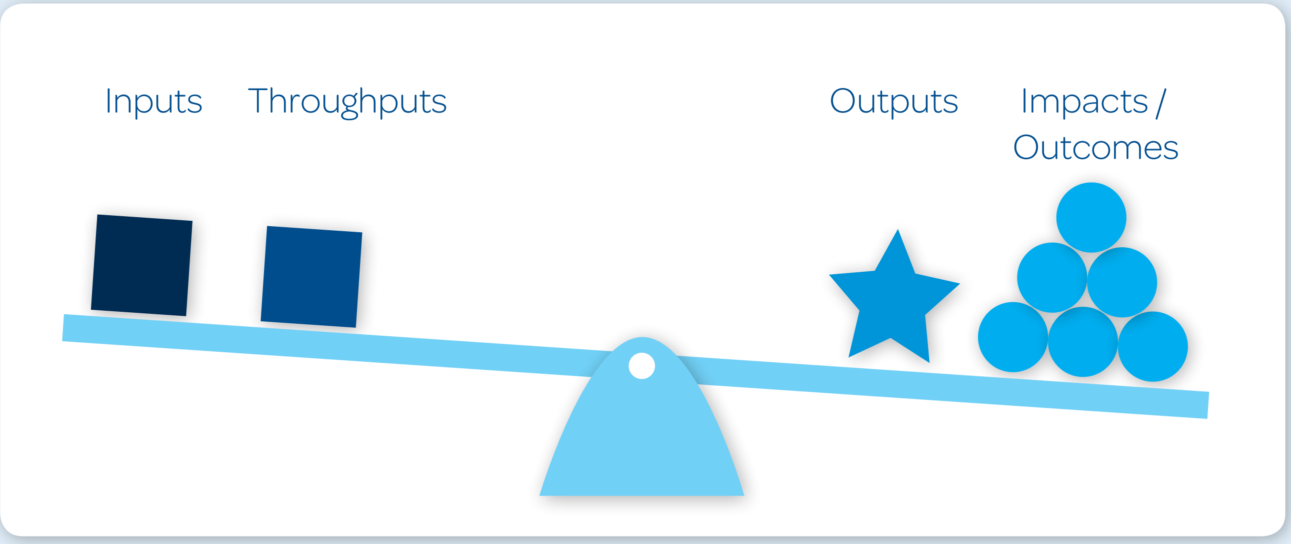
In the value debate, all stages in the reporting process have a role in delivering more valuable outcomes. For example, throughput costs such as new systems, policy development and extra resources will all come under increased scrutiny and be expected to deliver more. Decision making will need to take a longer term perspective based on standard return on investment periods. After all, initial throughput investments may require long lead times to fully deliver overall value creation.

As more and more companies move into the fourth wave the relationship and the relative importance of the system's elements is shifting. Reporting practitioners, audiences and their stakeholders are looking for reporting to be deeply embedded in their value adding processes. Reporting is less being judged by the output report and more by its impacts/outcomes. Some research participants, such as SABMiller, have started to explore reporting impacts. While the quantative approach to measuring value is only just beginning, the wider discussion of reporting earning its keep is already well under way. For first time reporters value flow analysis can be particularly useful in creating a business case for reporting. For established reporters this analysis can be used to optimise value flows modelled around what we call the 'reporting value balance'.

Value reporting balance

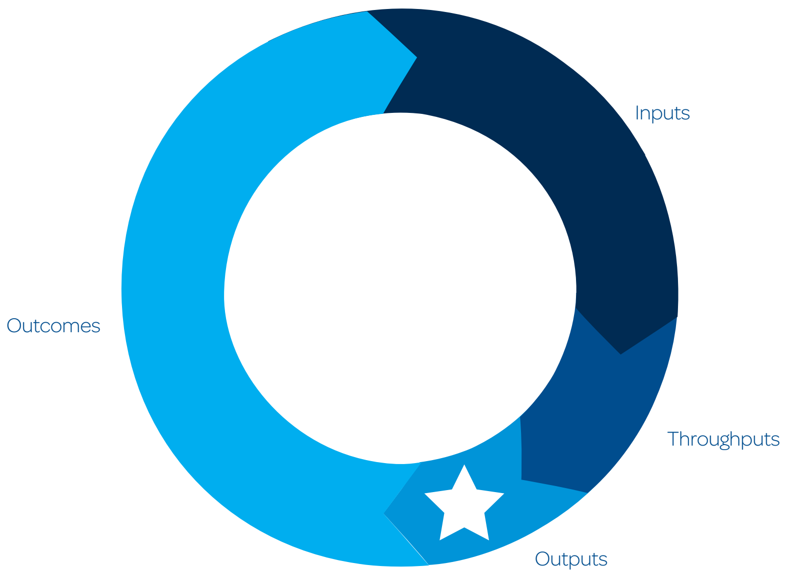
In the value reporting balance the value generated by the reporting outputs plus reporting outcomes must be greater than the cost of the inputs plus throughputs. We can express this diagrammatically as;

Figure 9: Value reporting balance



While the value balance is helpful in modelling single projects and programmes, its usefulness as a linear model to an embedded, cyclical system like reporting is constrained. The balance therefore needs to flex into a virtuous circle of value reporting where outcomes will affect and modify inputs and throughputs within a process of continuous improvement. Here multipliers and leverage play out over time to create direct and indirect value.

Figure 10: The virtuous circle of value reporting



Going forward the challenge for practitioners is to understand the different aspects of the reporting value balance and understand how to manipulate these to optimise value out against value in. Some first solutions that could move the value balance favourably include our five steps to added value reporting.

Value reporting balance

1. **Input.** Designing a dynamic, effective and creative reporting input process which collects content, analyses it, adds meaning and repackages it not just for final audiences but also for the content owners themselves. What better way of getting content owner buy-in, particularly with the growing importance of internal audiences?
2. **Throughputs.** A reporting process focussed on value creation will first map and then filter channels/issues/programmes over time to match with its audiences' needs. Such precision will prioritise issues, tighten narratives and highlight the actions needed to achieve outcomes. Less may well become more.
3. **Embedding** reporting may mean a delegated process where sustainability reporting piggybacks more and more onto the systems of other functions. These could be, for example, financial reporting, sales process or capital works planning. Actively engaging other functions in discussions about the value added by reporting can create a sustainability reporting 'movement' that is more responsive and integral to the business.
4. **Outputs.** These will need to be punchy, targeted and highly engaging to grab attention and promote transformation. One-offs, once a year will not be sufficient in a multi-channel, multi-audience, IT savvy world. At the same time a traditional, low cost, one-to-one approach will still be effective for some audiences to engender trust and secure licence to operate. Outputs may need to become more pro-active and forceful as users exert more control over communication.
5. In a **cyclical process** this cycle's outcomes become next times' inputs. Cut the cost of information gathering in the input stage by following outputs and linking them into measurement and recording systems.

Our virtuous cycle of value reporting also has the beginning of an active tool for practical decision-making. By reframing reporting decisions into a value argument the best choice will always be that which delivers greatest aggregate value. Going forward, Corporate Citizenship will be looking at how practitioners can optimise value in versus value out by expanding our value added reporting approach. Early areas for investigation are suitable metrics for these systems and suggested decision trees for some of the trickiest reporting decisions suggested by our survey. We look forward to your views and engaging with you in this exciting next stage.

About Corporate Citizenship

Corporate Citizenship is a global corporate responsibility consultancy that uses clear insight and a simplified approach to sustainability to deliver growth and long-term value for business and society. We work globally across industry sectors.

Our work takes us to Europe, USA, Asia, Africa and Latin America. We help our clients make the smart choices that will enable them to survive and thrive in an increasingly challenging business environment.

Corporate Citizenship promotes the idea that companies can be a force for good. We advise a global client list on a number of areas: strategy, reporting, supply chain, socio-economic impact, inclusive business models and assurance. Our longstanding clients include Unilever, Shell, Abbott and Vodafone.

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5 Appendix; A note of thanks

We'd like to express our deep gratitude to all 153 reporting experts who gave their time to take part in the survey at the heart of this research. In addition a special thank you goes to our interviewees;

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