

Corporate responsibility and sustainability

Fitness check for the board of directors
and the executive board



Roger Amhof
Partner
Ernst & Young Ltd
Brandschenkestrasse 100
CH-8022 Zurich
Tel +41 58 286 47 31
Mobile +41 58 289 47 31
Fax +41 58 286 42 18
Email roger.amhof@ch.ey.com

Dr. Mark Vesper
Manager
Ernst & Young Ltd
Brandschenkestrasse 100
CH-8022 Zurich
Tel +41 58 286 36 79
Mobile +41 58 289 36 79
Fax +41 58 286 42 18
Email mark.veser@ch.ey.com

Roy Levy
Manager
Ernst & Young Ltd
Bleicherweg 21
CH-8022 Zurich
Tel +41 58 286 32 48
Mobile +41 58 289 32 48
Fax +41 58 286 32 40
Email roy.levy@ch.ey.com

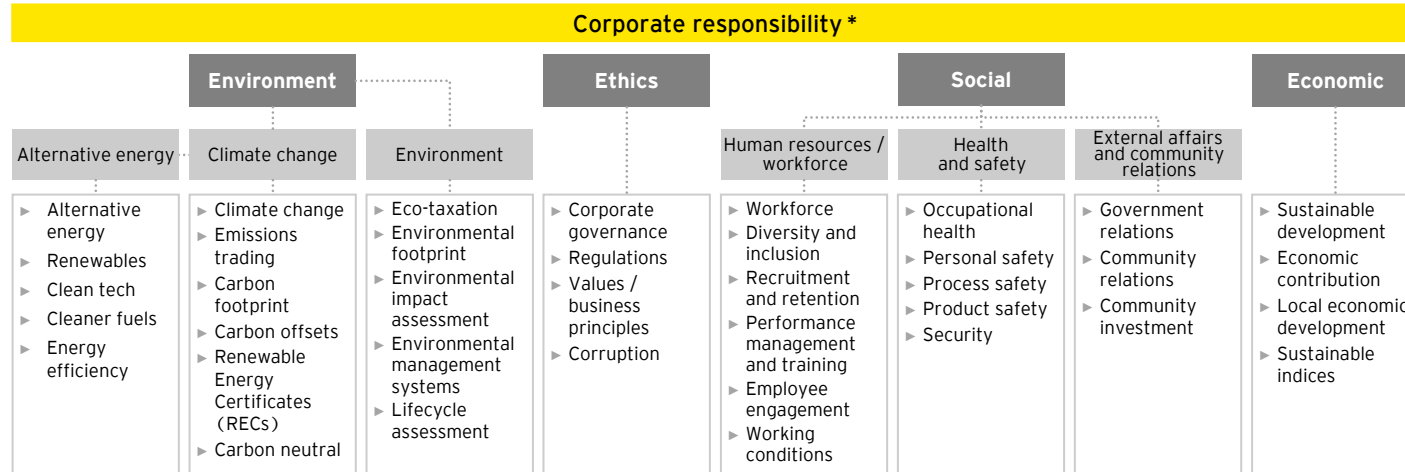
Dr. Ladina Caduff
Senior
Ernst & Young Ltd
Brandschenkestrasse 100
CH-8022 Zurich
Tel +41 58 286 46 62
Mobile +41 58 289 46 62
Fax +41 58 286 42 18
Email ladina.caduff@ch.ey.com

Corporate responsibility and sustainability

What is it about?

Public scrutiny and pressure on companies have increased such that they not only have to concentrate on their financial success but also have to take on additional responsibilities. The terms corporate responsibility and sustainability describe a management approach that focuses on creating long-term shareholder value. With this approach, company specific opportunities and risks arising from its environmental, social and economic business environment have to be considered.

A company's performance is not only measured based on economic dimensions but also on environmental, ethical and social dimensions. Therefore, stakeholder (e.g., investors, customers and employees) expectations are continuously increasing. In the context of corporate responsibility and sustainability, numerous topics are addressed that can be assigned to the main dimensions as shown in the overview below.



* Related terms: sustainability, corporate social responsibility and corporate citizenship

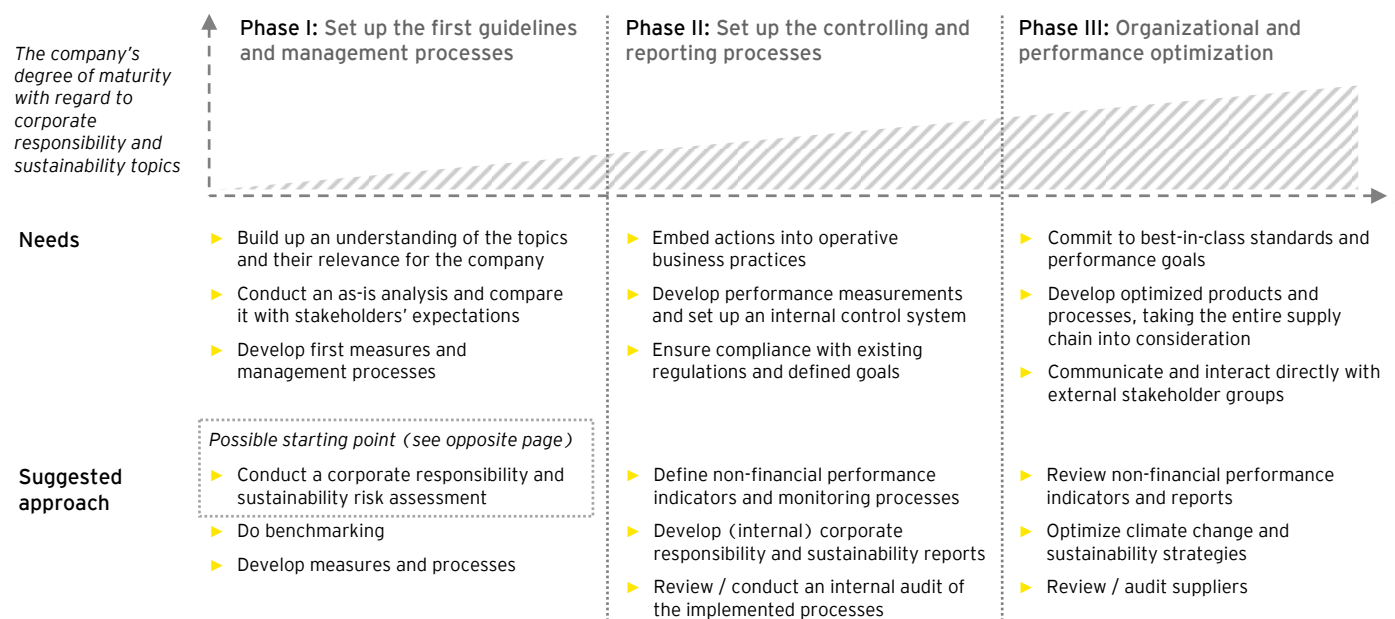
There are various standards that address management, reporting and assurance processes on the above-mentioned topics. Some of the most common standards are:

- Management standards e.g., EMAS, ISO 14000, ISO 26000, SA 8000
- Reporting standards e.g., Global Reporting Initiative (GRI), OECD Guidelines
- Assurance standards e.g., ISAE 3000, AA1000AS

Our services

Structured, non-bureaucratic and efficient: At first glance, it seems that taking these corporate responsibility and sustainability related topics into consideration will result in substantial administrative work for your company. Our services aim to limit the amount of work required. We analyze your company's needs and degree of maturity regarding these topics and then help define a pragmatic approach to address the environmental, ethical, social and economic dimensions.

This approach is based on the business lifecycle and links to the four described dimensions. In addition, interactions with major stakeholders are taken into consideration. Our approach aligns to business logic and is easy to understand. Based on our experience, it is also well received by boards of directors and executive boards.



We would be pleased to discuss the above-mentioned phases with you in more detail in relation to your company's corporate responsibility and sustainability development as well as our suggested approach.

Boards of directors and executive boards are being challenged

These days, the business world, politicians and the media are more critical of the social and environmental conduct of companies. The definition of acceptable behavior is becoming narrower while expectations regarding sustainability and transparency are growing as never before. Companies and their global business units are being confronted with various regulations and incentive systems, also with regard to climate change. Therefore, corporate responsibility and sustainability are recurring topics on the agendas of boards of directors and executive boards. The strategic importance of these topics is increasing and they need to be considered in daily business as well as in transactions where local conditions have to be taken into account. These topics are increasingly being addressed in separate chapters of annual reports and are a subject for discussions with various stakeholder groups. This whole area can very quickly have a negative impact on the company's reputation, market opportunities and stock price. For many boards of directors and executive boards, there are questions concerning: their understanding of these topics; the scope of these topics; decisive success factors or hurdles; influencers in the business world and in politics; the functionality of these partially new areas and a pragmatic approach for the future.

Market expectations

According to a survey of audit committee members conducted by Ernst & Young and Tapestry Networks, boards of directors and executive boards should deal with corporate responsibility and sustainability for the following reasons:

- Aligning and embedding the corporate responsibility and sustainability strategy into the overall corporate strategy
- Relevance of corporate responsibility and sustainability in the context of enterprise risk management
- The handling of specific corporate responsibility and sustainability topics can have company-wide implications (e.g., labor practices)
- Identification of business opportunities

Source: *The governance of sustainability, InSights for European Audit Committee Members*, 16 November 2007, Ernst & Young and Tapestry Networks (available at: www.tapestrynetworks.com/documents/Tapestry_EY_Euro_ACLN_InSights_Nov07.pdf)

For companies, there are various risks and opportunities associated with corporate responsibility and sustainability topics. For example, a survey among experts lists the following relevant climate change related issues:

The biggest risks

- Regulatory changes
- Criticism from investors and withdrawal of capital
- Financial, compliance and transaction risks
- Reputational risks
- Compensation claims

The biggest opportunities

- Strategy: Positioning of the company
- Products: Buyer preferences
- Operational efficiency: Cost savings
- Finance: Emission trading
- Tax: Utilization of tax incentives

Source: *Climate change: a hotter topic for audit committees, InSights for Audit Committee Members*, 18 August 2008, Ernst & Young and Tapestry Networks (available at: www.tapestrynetworks.com/documents/Tapestry_EY_ACLN_InSights_Aug08.pdf)

Fitness check for your board of directors and executive board

1.	Do your board of directors and executive board have the necessary information to correctly assess the risks for your company related to the environmental, ethical, social and economic dimensions?			
2.	Are you confident that published information on the social and environmental performance of your company is fairly presented and accurately reflects the situation?			
3.	Is your understanding of the relevant corporate responsibility and sustainability topics sufficient to be able to judge if the right points are being focused on and if the necessary steps have been taken?			
4.	Do your board of directors and executive board have a long-term outlook that enables them to understand the potential implications of climate change or other sustainability related issues on your company's performance?			
5.	Do your board of directors and executive board have an overview of the most important issues from the environmental, ethical, social and economic dimensions that can influence the long-term success of your company?			
6.	Do you know which opportunities the corporate responsibility and sustainability agenda offers to your company and did you set your goals accordingly?			
7.	Is there a clear procedure for handling corporate responsibility and sustainability risks?			
8.	Is it clear who is responsible for the sustainability performance of your company and how this performance should be improved?			
9.	Does your company possess the necessary skills to reach the goals that were set regarding the environmental, ethical, social and economic dimensions?			
10.	Have adequate measures been taken to ensure that the corporate responsibility and sustainability reporting to your board of directors and executive board is fairly presented and accurately reflects the situation?			
11.	Is the corporate responsibility and sustainability management sufficiently embedded in the core business processes such as performance management, internal audit and planning?			

Possible procedure for a corporate responsibility and sustainability risk assessment

	Week 1	Week 2	Week 3	Week 4	Week 5
Definition of goals and procedure	█				
Development / refinement of the risk catalog	█	█			
Individual assessments with the BoD / EB		█	█		
Evaluation			█	█	
Overall assessment from the BoD and EB (separately)				█	█
Comparison of results - Head of the BoD with CEO					█
Draw up risk report (for internal use only)					█

We would be happy to meet with you and further discuss this very important subject. Please find our contact information on the back cover.