

Sustainability performance reporting

Fitness check for executive and supervisory boards



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Embedding sustainability in your internal and external reporting

What is the challenge?

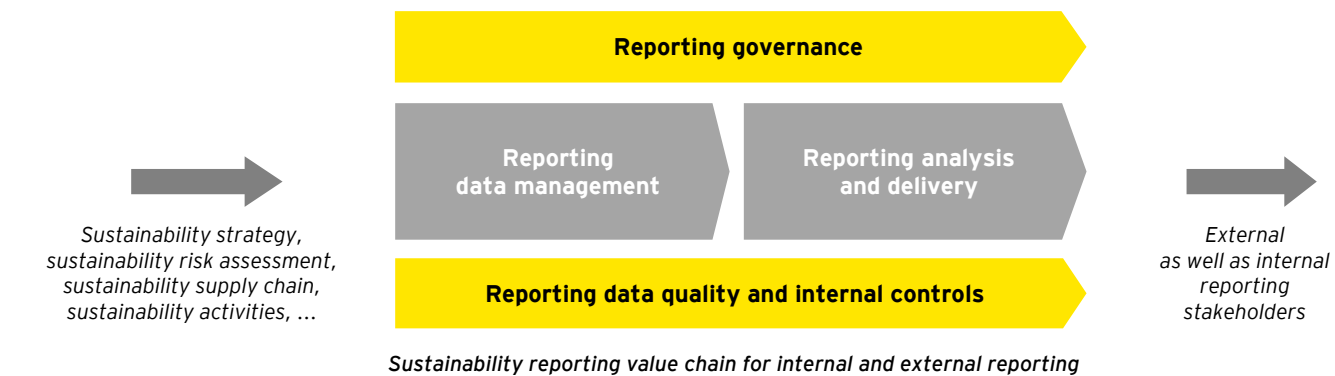
Recently sustainability has become a hot topic in performance management. A wide variety of business activities have been started to address sustainability. For many international companies, sustainability reporting has become an important means by which they provide stakeholders with information on their sustainability performance to enable effective monitoring.

However, current sustainability reporting concentrates on measures that focus on external disclosure. Therefore, synergies with respect to internal sustainability management and controlling are not widely capitalized on at the moment. Moreover, the quality, especially the data quality, of the sustainability reporting of many companies currently does not meet the needs of stakeholders, neither the external nor the internal ones.

What are the key questions to answer?

1. How can you develop your external as well as internal sustainability reporting in order to support performance management decision-making with regard to sustainability issues?
2. How can you ensure a level of (data) quality in sustainability reporting that satisfies both internal and external information standards?
3. How can you manage the sustainability reporting value chain so that process reliability and process stability are improved?

Starting point: the sustainability reporting value chain



Sustainability reporting does not stand on its own: it is the final result of all your sustainability activities, and therefore, has to be integrated in all your business processes. Thus, sustainability reporting cannot be separated from your general value chain. Rather, your sustainability core processes and your business processes have to be integrated.

The sustainability reporting value chain is the conceptual starting point from which you can address not only internal and external reporting requirements, but also the quality of your sustainability management. Moreover, the value chain is a workflow model that holistically manages all aspects of the reporting processes.

The sustainability reporting value chain contains four different core processes that are essential for sustainability reporting:

1. **Reporting governance** which includes all strategic and conceptual questions around sustainability
 2. **Reporting data management** which focuses on data extraction and transformation activities
 3. **Reporting analysis and delivery** which cover reporting preparation topics including the commentaries
 4. **Reporting data quality and internal controls** which include quality assurance controls at different stages
- All four core processes are equally important and have to be organized accordingly.

Your benefits

Professional sustainability reporting processes, as outlined above, have numerous benefits. They can be classified into the following categories: revenue and market share, asset and capital management, earnings and operating margins, and reputation and brand.

Revenue and market share

- ▶ Focusing on quality controls enables you to use sustainability as a competitive advantage
- ▶ Integrated sustainability reporting reinforces your brand positioning in the market
- ▶ A holistic view on all process aspects of sustainability reporting enables you to rapidly and competently respond to market expectations

Asset and capital management

- ▶ Embedding your internal sustainability reporting into your performance management demonstrates to the capital market the importance you place on sustainability reporting
- ▶ Integrated sustainability reporting enables you to respond better to capital market needs
- ▶ Integrated sustainability reporting improves your ability to control all assets

Earnings and operating margins

- ▶ Implemented quality controls limit review process costs
- ▶ Automated processes based on an integrated value chain reduce manual activities
- ▶ Integrated internal and external sustainability reporting enables you to utilize process synergies, thereby reducing process costs

Reputation and brand

- ▶ Integrated internal and external sustainability reporting enables you to better align decision-making
- ▶ Integrated sustainability reporting serves as a market differentiator
- ▶ By having the quality of your sustainability reporting checked, the risk of incorrect information being given to stakeholders is reduced

A task for executive and supervisory boards

External (and internal) stakeholders demand reliable and comprehensive information. Therefore, executive and supervisory boards need to focus on sustainability reporting in order to deliver the information. Reporting is the final interface to stakeholders and can be very delicate. Sustainability reporting communicates the quality of the company's sustainability efforts across all processes. Hence, sustainability reporting is important for executive management.

Sustainability reporting without executive management attention jeopardizes brand positioning and potentially leads to noncompliance with legal requirements in certain countries, which can then have consequences. Moreover, unreliable and inconsistent sustainability data greatly impairs management's decision-making abilities.

Market expectations and observations

According to our survey of audit committees members, executive and supervisory boards should be concerned about sustainability reporting for the following reasons:

- ▶ The sustainability strategy should be aligned with and embedded into the overall corporate strategy
- ▶ Sustainability impacts general business rules
- ▶ Business opportunities can be identified

These points underpin the importance of a holistic and systematic approach that links sustainability reporting with the overall business environment.

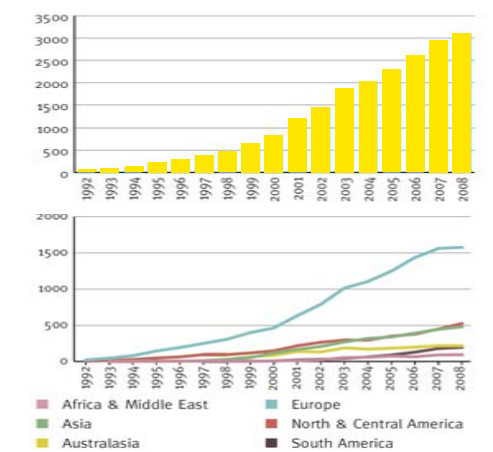
Source: Ernst & Young and Tapestry Networks survey, *The governance of sustainability (2007)*. Survey of 24 people in Europe and North America.

The relevance of non-financial reports for corporate management is increasing. For example:

- ▶ In Europe companies are most interested in sustainability reporting although the marginal increase seems to be declining
- ▶ In Asia as well as in North and Central America, interest in sustainability reporting has continuously risen
- ▶ In Africa, the Middle East, Australasia and South America, interest in sustainability reporting remains at a low level but is stable

Overall, there is much interest in sustainability reporting which leads to a strong demand for state-of-the-art approaches around this topic.

Number of companies doing sustainability reports



Source: Corporate Register: *Global Winners & Reporting Trends (March 2009)*

Fitness check for your executive and supervisory boards

1. Is your sustainability reporting aligned with/derived from your overall corporate strategy?
2. Do you have documented guidelines for sustainability reporting, as you have for statutory reporting?
3. Is your sustainability reporting embedded into your regular internal management reporting?
4. Are your sustainability reporting processes organized in a defined workflow?
5. Do your sustainability reporting processes consist of clearly assigned tasks to a limited number of employees?
6. Does your sustainability reporting address the information needs of your external as well as internal stakeholders?
7. Does your sustainability reporting have an impact on how you are seen by internal and external stakeholders?
8. Do internal and external stakeholders fully understand your sustainability reporting strategy?
9. Is the reliability and consistency of information on sustainability sufficient to support management decisions?
10. Do you follow a well-defined quality assurance process for your sustainability activities?

Possible procedure for a sustainability reporting project

	Week 1	Week 2	Week 3	Week 4	Week 5
Kick-off /definition of goals and procedure	█				
Development of sustainability reporting framework		█			
Individual assessments with board of directors, executive and supervisory boards/other members of management			█		
Consolidation/evaluation of individual assessments				█	
Overall assessment - board of directors and executive board					█
Comparison of results from the chairman of the board of directors with the CEO					█
Prepare and present the sustainability reporting readiness assessment					█

Why Ernst & Young

We are very experienced in the field of sustainability-focused advisory and assurance services and have worked with numerous international firms to address sustainability issues. Our professionals have extensive knowledge regarding strategies, processes, performance measurements and external reporting. The methodology we apply is compatible with related approaches for business performance reporting. Additionally, we play an active role in national and international organizations, which focus on the development of criteria and standards in the area of sustainability. We can therefore keep you up-to-date on current trends and developments. Furthermore, we can offer you global reach and scale through our worldwide network of sustainability professionals. We would be happy to meet with you and further discuss your sustainability needs. Please find our contact information on the back cover.