

Telling your ESG story: Trends in corporate responsibility reporting

In the aftermath of the global financial meltdown, investors are eager to know which companies are the most reputable, the best managed and built to last. Skeptical institutional and individual investors have come to realize that quarterly performance numbers fail to tell everything about a company. At "Sustainable Stock Exchanges," a conference recently held at the UN's New York headquarters, George Kell, executive director of the United Nations Global Compact, stated: "Short-term, quarterly profit maximization is not sufficient to build long-term value."

This increasing investor scrutiny has helped accelerate the frequency and rigor of corporate responsibility reporting. No longer simply about corporate philanthropy, many responsibility reports are discussing the business impact of environmental, social and governance (ESG) factors, as more investors view them as a proxy for a company's reputation, management quality, ability to handle risks and long-term viability. Whether new to responsibility reporting or evolving your approach, your company should examine ESG issues critical to its business and determine how best to communicate them to shareholders. Now more than ever, your company's ESG performance has a role to play in telling your larger investment story.

ESCALATING EVIDENCE

All the signs point to the integration of ESG criteria into mainstream investing. Just consider the rapidly mounting evidence:

Corporate responsibility reporting on the rise worldwide
According the *KPMG International Survey of Corporate Responsibility Reporting 2008*, nearly 80% of the top 250 Global Fortune 500® companies issued corporate

responsibility reports. Three-quarters of those companies used Global Reporting Initiative™ (GRI) guidelines. And the integration of corporate responsibility information in annual reports is on the rise in a number of developed and emerging markets.

Global commitment to corporate citizenship and sustainability

Numerous companies all over the world have joined the United Nations Global Compact, a strategic policy initiative for businesses committed to aligning themselves around human rights, the environment, labor practices and anti-corruption principles. Launched in 2000, the Global Compact now has more than 6700 participants, including over 5200 businesses in 130 countries.

Regulatory support for ESG disclosure

In July of 2009, the U.S. Securities and Exchange Commission (SEC) agreed to consider whether ESG disclosure should be mandatory. In October of 2009, the SEC stated that companies could no longer exclude shareholder resolutions on ESG issues that may "transcend the day-to-day business matters of a company and raise policy issues so significant that it would be appropriate for a shareholder vote."

Increased demand for quality ESG data

Since its launch in 2005, the United Nations Principles for Responsible Investment (PRI) has grown to nearly 650 signatories from the international investment and accounting communities, with more than \$18 trillion in assets under management. The PRI aims to help investors integrate ESG performance data into investment decisions and ownership practices.

Greater availability of ESG data through mainstream channels

Supporting the demand for ESG data is the greater availability through mainstream tools and providers, such as Bloomberg's new ESG Data Service and many major stock indices (Dow Jones, FTSE and Standard & Poor's, to name a few). As mainstream investors are increasingly exposed to ESG issues, they are better able to assess — and more likely to request — comprehensive information about a company's ESG performance.

CONNECTING THE DOTS

Current global trends are creating a new era in corporate responsibility reporting. Not only should your company understand ESG issues most critical to the business, it should also be prepared to measure and report on them. To reach today's sophisticated investors, your company should assess the link between ESG performance, and long-term strategies and sustainability. By connecting the dots for investors, your firm will demonstrate how well it understands and manages vital ESG issues. More importantly, your company will present a holistic view of its current and future prospects.

Whether developing an integrated corporate responsibility and annual report or separate tactics, consider these three things to help stakeholders understand the relationship between your company's ESG and business performance:

1. Be relevant and rigorous.

- Include management's explanation of the company's ESG strategy and priorities within the context of market trends and issues.
- Discuss existing and emerging ESG risks and opportunities, the strategic and financial implications, and measurable contributions.
- Provide balanced reporting of achievements and failures against internal ESG targets and peer group performance.
- Present standardized, concrete data that is comparable over time and across companies. As mentioned earlier,

many companies have adopted GRI reporting standards. Also consider including other standards specific to your industry.

2. Be clear and consistent.

- Craft messages that are consistent across corporate and investor communications.
- Use accessible language that is free of jargon and reflects the company's brand voice.
- Present well-organized content with succinct overviews, and high-impact visuals and information graphics.
- Provide opportunities for greater depth and detail elsewhere, such as a website.

3. Be proactive and inclusive.

- Proactively reach out to a wider stakeholder audience and invite dialogue, through print and online communications, webcasts, conferences, meetings, road shows and more.
- Build and reinforce messages, tailored for the audience and venue, across touchpoints.

COMMUNICATING TANGIBLE VALUE

The trends show that corporate responsibility and investor communications are evolving to connect a company's ESG performance and long-term business success. They provide concrete facts, proof points and market context to help investors appraise material ESG issues, and benchmark performance over time and relative to the competition. At whatever stage in the reporting spectrum, your company now has an opportunity to determine how its ESG story can be part of your larger investment story — one that can help your firm capitalize on its ESG efforts and communicate tangible, sustainable value.

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