

[Home](#) / [IR magazine](#) / [Inside IR magazine](#) / [Archive](#) / [2009](#) / September 2009
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Readers' verdict

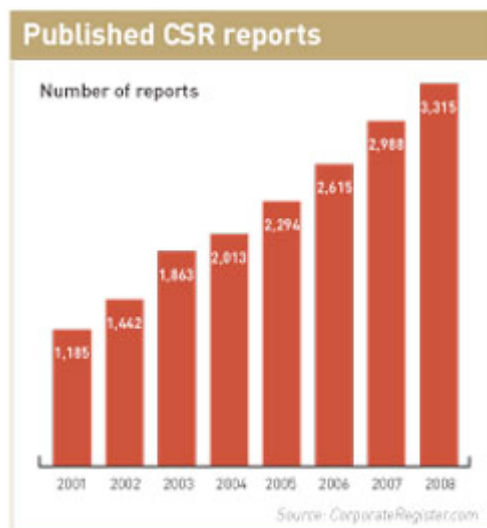
- Investors and analysts keen readers of sustainability reports
- Incoming regulation requires more disclosure
- Philanthropy and big glossies get the thumbs-down

By Tim Human

[back](#)

Readers of sustainability reports are a diverse bunch, ranging from lofty academics to battle-hardened environmental activists. IR's main targets – investors and analysts – are keen readers, too. Data from CorporateRegister.com, an online archive of CSR reports, show around 10 percent of its visitors are from one of these two groups. But what do they want to see – and how do they want it presented?

Julie Gorte, senior vice president for sustainable investing at Pax World, a socially responsible investment (SRI) firm with around \$2.1 bn in assets under management, sums up the general mood when she says CSR issues must be tackled in relation to a company's core business model and strategic goals. 'A good CSR report should address the hot buttons of the company, the industry and the sector,' she comments from her firm's base in Portsmouth, New Hampshire. 'I can't stand collections of stories that look like marketing got hold of them.'



This mood is strengthening in the investment community, as CSR issues may soon have a more significant effect on the bottom line and shareholder returns. Authorities in the UK, the US and elsewhere have laid down plans to dramatically cut carbon emissions. This would see businesses forced into potentially costly carbon-trading schemes.

'Over time, these moves could lead to greater costs of carbon,' notes Emma Howard Boyd, head of socially responsible investment and governance at London-based Jupiter Asset Management. 'Therefore, you need more relevant disclosure to allow judgments to be made.'

If UN delegates agree a global deal on carbon emissions in December this year at the United Nations Climate Change Conference in Copenhagen, you can expect investor scrutiny to crank up another notch.

Board engagement

For many in the investment community, a key way for companies to show they take CSR issues seriously is for the board to be involved. Some companies have board members with specific responsibility for sustainability issues; others have a CSR manager who reports to the board.

Whatever the method, investors and analysts want to see these issues considered at the most senior level of decision making, and understand the reporting lines involved.

'We're impressed by firms that have board representation of sustainability issues,' says Lucy Carmody, executive director at Singapore-based Asian research house Responsible Research. 'I think the key to success is having a board director who is involved in the senior decision making process.' She picks out Land Lease, an Australian property development and management company, as having particularly good environmental, social and governance (ESG) credentials. 'The work it has done on sustainability internally has been impressive,' Carmody comments. 'It is very well structured.'

Zoe Riddell, head of IR at the Carbon Disclosure Project, the non-profit organization that hosts the world's largest database of corporate climate change data, says the number of companies with board-level responsibility for sustainability issues is definitely on the increase. 'This is an encouraging trend because there is lots of relevant regulation coming down the pipeline,' she adds.

Thanks, but no thanks

Five years ago, board-level CSR engagement often amounted to the chairman writing a check for a charity or local community project. While this practice is less widespread now, it still goes on and is a particular bugbear of CSR-focused investors and analysts, who point out that most kinds of philanthropy come straight out of earnings and do little except flatter the vanity of senior management.

'We don't give much credit to corporate philanthropy,' says Carmody. 'I ignore it, unless it fulfills a strategic marketing function. When we're doing our benchmarking we allocate points only for strategic community investment and employee volunteering that will improve skills. But pure corporate philanthropy – where a check is written to a hospital or charity from internally generated funds – is not what we consider to be the right approach to CSR.' This type of philanthropy still thrives in Asia, she adds.

Environmental publicity stunts also get the thumbs-down. Erin Lyon, a director at Asia-wide consultancy CSR Asia, points to property firm China Overseas Land & Investment as an example of bad reporting in this area. She explains that, in the company's social responsibility literature, there is a story relating how property owners engaged in tree planting to push their environmental credentials. 'Good intentions gone a little wrong,' remarks Lyon.



Reporting metrics

Deciding how to report on sustainability issues can be tricky. The Global Reporting Initiative (GRI) is one way for companies to ensure their disclosure is up to scratch. It sets out a framework for companies to disclose CSR information and is used by around a quarter of all CSR reports.

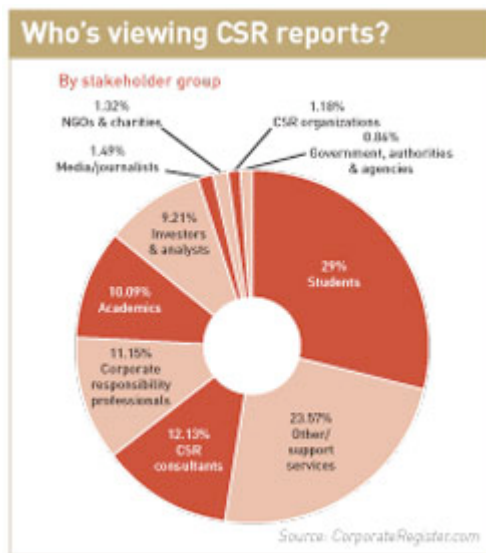
Asset managers and analysts warn against jumping into GRI reporting, however. The framework has been criticized for giving companies too many areas to report on. As a result, say critics, smaller firms feel overwhelmed and are put off providing *any* kind of disclosure.

'I don't think every company should have to adopt GRI reporting criteria,' says Carmody. 'For some smaller companies with limited management resources, it's too big a burden, too great a place to aim for. Asian companies have a long way to go, and need to start by taking baby steps.'

Lauren Compere, director of shareholder advocacy at Boston Common Asset Management, an SRI firm with \$800 mn under management, agrees the GRI might be too high a bar for beginners.

'I think the GRI has played a central role in setting up a broad framework for reporting on ESG issues,' Compere says. 'The challenge GRI faces in being accepted by companies is that when a firm is just starting out it may feel overwhelmed by the breadth and depth of issues that need to be reported under GRI's framework.'

Compere says her advice – which she gave to US clothing retailer TJX Companies this summer – is to build your own inventory of what you have in terms of sustainability policies and initiatives, write down how they affect key performance indicators, and then report around those areas; basically, do it yourself. 'We say GRI is an example of best practice, but you should look at it and then make it your own,' Compere adds.



Gorte keeps a list detailing what, in her view, makes a good sustainability report. It includes being thorough (covering all the company's hot buttons), quantitative (more statistics and fewer anecdotes), contextual (how do you compare with your peers?), credible (don't skip the bad stuff) and topical (emerging issues need to be addressed). She also says it's good to know where you are in the revolution. 'What I want to know is where you've been, what you're doing and where you're going,' she comments.

With regulation in the pipeline, now is a good time to access your sustainable reporting and make sure, as

Gorte says, you're hitting the right buttons.

EMEA focus

Name: Emma Howard Boyd

Based: London

Company: Jupiter Asset Management

Role: Head of SRI and governance

Likes: CSR issues addressed in annual report, reading how sustainability issues affect the business from a strategic angle, discussion of how issues are related to the board

Example: 'With Tesco, the profile given to corporate responsibility issues throughout the annual report shows how the company has placed its community project at the heart of its overall strategy. This is in addition to a separate, more detailed corporate responsibility report.'



Asia focus

Name: Lucy Carmody

Based: Singapore

Company: Responsible Research

Role: Executive director

Likes: Companies that have quantified their emissions and set targets, examples of individual business units with an understanding of how water and energy efficiency can be improved, board representation for sustainability issues

Example: 'For a really good example, I have to look beyond Asia, unfortunately. In Australia, Land Lease has done some pioneering work on sustainability internally, which has been very impressive. It has very specific targets and puts lots of emphasis on product development. For example, it is opening Asia's first true eco-mall in Singapore.'



Americas focus

Name: Lauren Compere

Based: Boston

Company: Boston Common Asset Management

Role: Shareholder advocacy

Dislikes: Big glossy CSR reports, examples of corporate philanthropy that have no strategic benefit, receiving 60-page documents in the mail (prefers companies to post CSR reports on the web)

Example: 'Esprit Holdings was the epitome of what not to do with a CSR report: really glossy, not a lot of information, lots of pictures. It has improved



but still doesn't produce a proper CSR report as far as I'm concerned.'



[back](#)

[back to top](#)

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