
# The Value of Social Reporting

Lessons learned from a series of case studies documenting the evolution of social reporting at seven companies

Institute for Responsible Investment

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# The Value of Social Reporting

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# Introduction

Transparency is recognized as a core component of corporate citizenship and social reporting is quickly becoming a preferred vehicle for communication about corporate citizenship. The number of reports has grown exponentially in recent years, and companies are devoting extensive time and resources to make their reports more useful both to external stakeholders and their own internal management systems. For instance, KPMG's recent survey of corporate responsibility reporting found that nearly 80 percent of the world's 250 largest companies now produce a report.

Despite the growing experience of companies globally with reporting, and the significant resources now dedicated to producing these reports, still relatively little is known about what companies themselves think about key questions such as:

- Why do companies decide to report?
- What information should reports contain?
- How do companies prepare a report?
- Do reports help companies engage with their stakeholders?
- Does reporting lead to managing what you measure?
- Where do companies find value in reporting?

### Methodology

To prepare the case studies, Center researchers visited the headquarters of each company to conduct interviews with key employees who either contribute to the preparation of the report or use it in their role at the company. Additional interviews were conducted by phone and more detailed interviews were held with the employees who have primary responsibility for report preparation. The range of functional areas that these employees represented within their companies spanned corporate citizenship, supply chain, human resources, investor relations, marketing, environment, health and safety, and one CEO.

The interviews provided an insight into how the report and the reporting process had developed at each company and where employees from across each company perceived the value in the process and the report.

The project was funded by the participating companies and the Boston College Institute for Responsible Investment.

To answer these questions, the Boston College Center for Corporate Citizenship's Institute for Responsible Investment examined the experiences and practices of seven companies in preparing social reports. That examination forms the basis of this overview report and case studies on each of the seven companies. The companies were chosen to represent different industries, geographies and experience in reporting. The companies that participated in the project were:

- Baxter International Inc.
- Gap Inc.
- Nestlé
- Novo Nordisk
- Seventh Generation
- State Street Corporation
- Telefónica, S.A.

This research focuses not on the social reports themselves, but rather on the process and outcomes of reporting: how companies prepare the reports, the effects of reporting on management practices, the changes companies expect to make in the future, and the lessons they have learned along the way.

The researchers' goal was to find whether and how companies found value in the reporting process, and whether and how their reports create value for internal and external readers. In this report the broader issues related to reporting will be explored. Unless otherwise noted, all references to the companies are from the case studies.

# The social report: Communications and performance management

Since the beginning of the 1990s, pressure has increased on companies to be more transparent about the social and environmental impacts of their business activities. This pressure has come from a variety of different stakeholders:

- **Consumers** concerned about the ethical implications of their purchases;
- **Shareholders** seeking to integrate social and environmental risks into their investment decisions;
- **Communities** and civil society organizations demanding to know the value that companies contribute to society;
- **Employees** who want assurance that the company they work for is a good corporate citizen.

One response to this pressure has been to publish an account of the social and environmental profile of a company. This allows a company to offer a window into how it views key social and environmental risks and opportunities in the context of its business practices. One format that companies have chosen to present this information is a social report.

In this study, "social report" is a covering term to describe the standalone publications of the companies participating in this study, variously called sustainability reports, corporate responsibility reports, CSR reports, corporate citizenship reports, "Creating Shared Value" reports and "corporate consciousness" reports.

Although social reports are generally just one of a suite of corporate citizenship communication tools, the term "report" denotes distinct characteristics that distinguish social reports from other documents:

- **Social reporting describes performance:** Where you are, where you have been and where you are going
- **Social reporting involves measurement:** To describe progress, the report must indicate where you are, where you have been and where you hope to go
- **Social reporting is a recurring process:** Over time, the story emerges by reporting regularly against consistent indicators

### Global Reporting Initiative Guidelines definition of sustainability reporting

"Sustainability Reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development."

– Sustainability Reporting Guidelines Version 3.0

It is the combination of both the communication and the performance management aspects of a social report, and the reporting process, that make it a unique tool for promoting good corporate citizenship. In the Boston College Center's monograph "The Stages of Corporate Citizenship", transparency and disclosure are a key feature of stage five companies. At the endpoint of the evolution, companies are moving beyond reactive statements and flank protection, and toward full disclosure that enables frank dialogue with stakeholders and creates opportunities to "change the game." However, game changing only becomes possible when reporting and disclosure is part of an overall corporate citizenship strategy.

U.S. Supreme Court Justice Louis Brandeis' statement that: "sunlight is the most effective of disinfectants" was made more than 80 years ago at a time when new standards were being introduced for financial reporting.[1] In the course of interviews for this study, researchers found that the same principle applies to non-financial reporting – namely, that once companies start disclosing their performance, there is an incentive to improve that can be used to drive a corporate citizenship agenda.

If reporting drives performance, then what is being measured and reported must reflect what ought to be managed. Aligning the content of a report with a strategic approach to managing corporate citizenship can provide practitioners with a powerful tool for improving performance.

But, as was found during the research, reporting to communicate can conflict with performance management. The news and ideas a company wishes to tell its stakeholders does not always correspond to the information it needs to track and improve performance. Nor do the interests of the company's most vocal stakeholders always reflect the company's greatest impact.

In theory, this conflict can be resolved by recognizing that reporting, while a key component of a robust corporate citizenship framework, is ultimately a means and not an end to improving performance. It is when the social report is used strategically as part of a corporate citizenship management framework, rather than as a separate activity focused on communicating with stakeholders, that the real value can be achieved.

Transparency must drive both internal and external reporting – only an honest account of performance and goals, failures and successes, allows social reports to be effective. But transparency alone is not enough. Effective internal systems are necessary to take what's learned through the reporting process to achieve continuous improvement. This remains a challenge, and goal, for all the companies in this study, and presumably for all companies that create social reports.

[1]Brandeis, L. 1933. Other Peoples' Money, and How the Bankers Use It.1

# The Evolution of Social Reports: Corporate Perspectives

## Early reporting initiatives

Three companies participating in this study, Baxter, Nestlé, and Novo Nordisk were among the vanguard companies that published environmental reports in the early 1990s. These reports, often led by the Environment, Health and Safety departments within organizations, established a baseline for performance on environmental issues as part of a management system intent on continuous improvement. The reports also allowed these companies to take a leadership position on environmental issues among their peers, external stakeholders and government agencies.

Paralleling the trend for environmental reporting was a trend for corporations, particularly in the United States, to report on their contributions to society. For State Street, what has today evolved into a sustainability report began as a report on philanthropic and community involvement activities. Recognizing that the community was a key stakeholder in its activities, State Street sought to account for its contributions to society.

External initiatives, such as the United Nations Conference on Sustainable Development, the formation of the World Business Council for Sustainable Development, and later the United Nations Global Compact, were all cited as influential factors by companies as they decided to report. These initiatives reflect the growing debate around the role of business and society. The evolution of reporting reflects how concepts such as sustainable development came to encompass not only questions of environmental stewardship, but also social impact.

Also influential was growing advocacy among civil society organizations. Companies sought to respond to allegations and be part of debates rather than the subject of them. Although initial responses may have been responsive – such as a Novo Nordisk's review of a public pamphlet on enzymes – over time companies have seen reporting as a tool to take the initiative on key issues. For instance, Nestlé's report on its business in Africa was timed to coincide with the G8 Summit on development in 2005. The notion that business could be a partner in finding solutions and should be included in debate rather than excluded was emerging within business, government and civil society.

## Toward an emerging standard

The evolution of the Global Reporting Initiative (GRI) Guidelines plays an important role in this story. The GRI is a multistakeholder partnership initially led by the environmental organization Ceres. The purpose of the GRI was to create a set of principles and guidelines for reporting that responded to the needs of companies, civil society organizations and investors. The initial motivation for the GRI was to promote reporting in accordance with the Ceres Principles, which had been developed in response to the Exxon Valdez oil spill and were consequently focused on the environment. However, as Allen White, one of the GRI's founders, recalled during an interview in 2007, the GRI's success depended on it becoming a more holistic nonfinancial reporting standard, with economic and social metrics joined to environmental metrics, as demonstrated in the original framework that emerged in 1998.[2]

Corporate Register's online record of social reports demonstrates the evolution that occurred in corporate reporting. While initial reports were predominantly described as "Environment" or "Environment, Health and Safety" reports, the vast majority of reports today are classified as either "Sustainability Reports" (covering environment, social and economic information) or "Corporate Responsibility Reports" (covering EHS, community and social information).[3] The experience of the companies in the study reflects this convergence: whether it was moving from an environmental focus, as was the case for Baxter and Novo Nordisk, or from an initial focus on social issues as for Gap and State Street, the result was reports that reflected a more holistic assessment of the companies' performance across the social, environmental and economic issues.

Those companies which began reporting later – represented here by Seventh Generation and Telefonica – adopted a more holistic approach to reporting from the outset based on the GRI Guidelines. As an interviewee at Seventh Generation noted, for a "values driven" company such as Seventh Generation, the question has become not whether to report, but what to report. Driven by a charismatic CEO, Jeffrey Hollender, transparency is seen as a key element to the responsible business practices to which they aspire. For Telefónica, the report is a key component of a corporate responsibility framework that seeks to manage reputation and drive internal innovation.

The story for Nestlé is similar, in that the report was described as the "face of the company" and creating a "platform for dialogue" with stakeholders. Recently, Nestle has moved from issue specific reports toward a "Creating Shared Value" report that addresses the company's approach to corporate citizenship.

### The recurring question: For whom are reports written?

Theoretically, social reports will be of use to their readers. Yet a recurring question confronted by all the companies in the study was: who actually reads, or should read these reports?

This question is fundamental. Without a clear understanding of who the audience is for the report it becomes impossible to identify the information that the report should contain, whether information should be presented as metrics or stories, what level of detail or verification is required, how best to disseminate the report, and how the report can be used to engage with stakeholders.

Ceres notes that "companies and stakeholders within and outside of the Ceres Coalition utilize corporate sustainability reports as

[2] Waddock, S. 2007. On Ceres, the GRI and corporation 20/20: Sandra Waddock talks to Allen White (Interview). Journal of Corporate Citizenship (Vol. 26, Summer) p. 38.

[3] Corporate Register, November, 2008. Global Report Output by Type. http://www.corporateregister.com/charts/bytype.htm

informative benchmarking and accountability tools to measure a company's environmental, social and economic performance."[4] The members of the Ceres coalition include investors, environmental or public interest groups, foundations, labor groups and companies. Needless to say, each group has its own interests and uses for the information in reports.

When asked to identify who is the audience for their reports, interviewees listed a broad group of stakeholders. These groups all posed particular considerations when deciding on the content of the report, determining the processes required to capture information and the best way to distribute the report. The audiences listed by interviewees include:

- **Employees**
  Although noted as a primary audience for the report, companies struggled with representing an image of the company that was both "real" for current employees and appealing to potential recruits; balancing the cultural differences within national or international work forces; and making the report accessible to blue collar and white collar workers alike.

- **Consumers**
  Growing consumer interest in products that are associated with responsible practices is well documented. However, companies found social reports a cumbersome tool for engaging with consumers. Striking the right balance between telling stories and informing about performance proved very difficult. Similarly, the best length and format for the report to engage with consumers also proved problematic. For example, Gap employees noted the report is just one tool they use to engage customers on issues of corporate citizenship, with others including an in-store brochure, in-store decoration and product labels.

- **Business partners – Suppliers and customers**
  Companies recognized that informing organizations in their value chains about their corporate citizenship activities was a key opportunity to increase their influence in such relationships. While each company noted using the report in some way in relation to suppliers or business customers, the reports served primarily as a demonstration of commitment to social and environmental issues. Companies had yet to find ways of using the report to engage business partners in finding solutions to common social and environmental problems.

- **Governments and regulatory agencies**
  Governments and regulatory agencies were cited by several companies, most notably Baxter and Telefónica, as key audiences for the report. Baxter uses its report to demonstrate leadership on environmental issues while Telefónica has found its reports to be an effective means of describing positive economic contributions made by its business. However, the need to tailor the information in the report to make it relevant to relevant government representatives has been a challenge.

[4]Ceres. Engagement and Disclosure. www.ceres.org

- **Civil society organizations**
  Civil society organizations were singled out as stakeholders to whom companies distributed their reports. But these groups presented a challenge: companies' social reports cover a broad range of issues, but most civil society organizations are interested in detailed information about more specific topics. Creating a report that covers specific areas in detail while at the same time remaining relevant to other stakeholders was a key concern for companies.

- **Investors**
  Socially responsible investors were mentioned as a key audience for the report by most companies but there was clearly frustration that for many SRIs, and particularly socially responsible indices, having a report did not reduce the number of surveys or requests for further information for companies.

  Mainstream investors were still perceived to be uninterested in social reports (an observation supported by research conducted by the Center's Institute for Responsible Investment ),[5] despite the existence of initiatives such as the United Nations Principles for Responsible Investment (UN PRI), which mark a trend toward growing interest in environmental, social and governance (ESG) information. Signatories to the UN PRI, representing us$15 trillion in assets under management, are committed to integrating ESG into their investment decisions and seeking "appropriate disclosure...from the entities in which we invest."[6]

The different audiences complicate the reporting process. While stories resonate better with retail consumers, civil society organizations demand detailed and verifiable information on specific topics. Similarly, employees may be most interested in the part of the company in which they work, whereas investors prefer limited but targeted information that informs their overall assessment of the company's environmental, social or governance risk.

Resolving these conflicts requires compromise. Companies need to prioritize the audiences to whom the report is directed and develop alternative means of communicating with other stakeholders. Without a defined audience for the report, it risks becoming, as an interviewee from Novo Nordisk observed, a document that is "for everybody and for nobody."

In Novo Nordisk's case, the company decided several years ago to integrate its sustainability report into its annual financial report to shareholders. This decision reflected the central position accorded to management of the "triple bottom line" within the company. Shifting to an integrated report resolved the question of the audience for Novo Nordisk: for the integrated report, the audience is, and

[5]Wood, David and Hoff, B. 2007. The use of non-financial information: What do retail investors want? Boston College Institute for Responsible Investment. www.bcccc.net/FINRAresearch. Wood, David and Hoff, B. 2007. The use of non-financial information: What do investment professionals want? Boston College Institute for Responsible Investment. www.bcccc.net/FINRAResearch.

[6]For more information, see United Nations Principles for Responsible Investment. www.unpri.org

must be, shareholders. Although this gave the report a clearer purpose – how to demonstrate the value of the triple bottom line – it also reduced the amount of information that could be included in the report and changed the tone in which the report is written. The integrated report records performance, with financial and nonfinancial information presented in equal terms. This has required reducing the amount of nonfinancial information and changing the tone so that rather than posing questions and engaging in debate, the nonfinancial information was written in more certain terms, consistent with the financial information.

Unless the report retains a link to the company's own assessment of which corporate citizenship issues are most important for it to manage, the report has less value as a performance management tool. Confining the report's role to that of a communication tool may mean the report will not fully reflect corporate performance against corporate citizenship goals. Rather than being a tool for building confidence with stakeholders, the report can become a potential liability if it does not reflect the company's actual performance.

## Contents: How to decide what is in a report?

Deciding on the content of a report requires a careful balance of the communication and performance management aspects of reporting. The elusiveness of the report's audience complicates considerations of contents. At the same time, careful consideration is necessary to ensure the report is integrated into the company's internal corporate citizenship management goals, if it is to be of use in achieving them. The key dilemmas identified in relation to the content of the report relate both to the nature of the information included in the report and the manner in which the information was presented. Companies used a range of tools to help them resolve these dilemmas. These included:

- Assessment of key corporate citizenship risks
- Benchmarking against peers
- Engaging with external stakeholders
- Engaging with internal stakeholders

Using these tools allows companies to develop a process for assessing those corporate citizenship issues that are most material to their business and to their stakeholders. It also provides a testing ground for the manner in which the information is presented. For instance, asking stakeholders to review a report draft in a safe and neutral setting allows companies to see how readers respond both to form and to content.

Establishing a process for prioritizing social and environmental risks and opportunities can be used to inform the content of the report, but, more importantly, provide the basis for developing performance goals in a corporate citizenship management process. Indeed, as companies became more experienced reporters, the emphasis shifted toward using the processes that evolved through reporting as part of the corporate citizenship management process and the report became a means of documenting progress rather than setting the agenda.

### Mapping stakeholder concerns

Most employees responsible for preparing the report worked either on a corporate citizenship team or in communications or public affairs. In both cases, this meant they had a good understanding of the key issues of concern to stakeholders through direct interactions, fielding inquiries, responding to surveys from socially responsible investors, and ongoing monitoring of media commentary. This knowledge provided a useful background for preparing the report. As an interviewee at Gap reported, monitoring speaking engagements or customer inquiries about product sourcing can provide important insights into emerging trends.

In some cases, companies conducted a formal process of mapping current issues in the press or online. For instance, several companies engaged SustainAbility to undertake desk-based research of the current issues being discussed in the media and civil society organizations that related to their core business activities. The companies then worked to prioritize these issues.

### Materiality

The concept of materiality is drawn from financial reporting, where it is used to assess whether information must be included in a company's financial reports. Broadly speaking, information is "material" if it would impact a reasonable investor's assessment of a company. In the context of nonfinancial reporting, the GRI offers the following statement describing materiality:

> *The information in a report should cover topics and indicators that reflect the organization's significant economic, environmental and social impacts, or that would substantively influence the assessments and decisions of stakeholders.*

Translating this concept to social reporting, although seemingly intuitive, has been a challenge. This is largely because unlike financial reports, social reports are prepared with a number of different readers in mind. For example, while investors may define "materiality" as nonfinancial information that will impact on financial performance, advocacy groups will be interested in information related to their particular issues – whether animal rights or greenhouse gas emissions. In both cases, stakeholders may be influenced by information that companies report, meaning that it is "material" from their perspective.

Different frameworks have been developed to identify material issues. Two commonly used by companies are those developed by AccountAbility and SustainAbility. These frameworks both emphasize stakeholder engagement in assessing materiality.

The GRI was also used to inform the initial mapping process for companies. As Deborah Spak of Corporate Communications at Baxter described it, "GRI is a good compilation of the highest level expectations and needs of a variety of stakeholders." Examining the list of indicators and prioritizing them according to the internal understanding of the company's business was a useful starting point for identifying issues that should be included in the report, whether or not the ultimate objective was to comply with the GRI. Similar emerging standards that companies including Nestlé, Novo Nordisk and Telefónica referred to in this regard were the U.N. Millennium Development Goals and the U.N. Global Compact Principles. The trend to refer to these standards in reports was similarly noted by SustainAbility in its report "Tomorrow's Value."[7]

[7]http://www.sustainability.com/downloads_public/insight_reports/Tomorrows_Value_Exec_Summary.pdf

## Benchmarking against peers

The companies analyzed in this study all referenced peer reports when preparing their own. In many cases, it was apparent that companies were influenced by general trends to report within their industry. Although industry peers did have some influence, companies did not limit benchmarking to competitors' reports when looking for examples of best practice. Since "best practice" in reporting is still evolving, learning from the lessons and examples of others has been valuable to companies as they developed their own approach to reporting.

Generally speaking, companies looked to peers in four categories when identifying best practice:

1. **Companies in the same industry sector**
   Starting with companies in the same industry sector provides an insight into how others have presented common challenges related to the company's business activities. For instance, Gap noted that it compared its supply chain disclosure to the approach taken by other companies in the clothing industry. In that industry, as one interviewee observed, momentum was created by the various reporting activities of a core group of companies including Gap, Nike and Timberland.

   However, others noted that while industry peer comparison is a useful starting point, there is tremendous variation within sectors. For example, State Street is a custodial bank and asset manager, meaning that its corporate citizenship challenges differ from other companies in the financial services industry such as insurance companies or retail banks.

2. **Companies of similar size**
   Another source of influence was the activities of companies of a similar size, particularly in the case of the larger companies. For these organizations, demonstrating leadership and meeting community expectations regarding reporting were key considerations. As Telefónica Corporate Responsibility Manager David de San Benito Torre noted, "society expects more from large companies." Seventh Generation, the smallest company in the study, also used the reports of similarly sized organizations – in particular those that shared a common "values-driven" approach to business such as Ben & Jerry's.

3. **Companies operating in the same country or geography**
   Several companies were influenced by local and international reporting trends. In some cases this was driven by the activities of regulatory agencies, as was the case with Novo Nordisk and Baxter's early environmental reporting. In other cases, monitoring the reports of other local companies provided an opportunity to be part of defining corporate citizenship in that locale, as was the case with Nestlé's "Creating Shared Value" report in Mexico.

4. **Recognized leaders in reporting – regardless of their sector, size or location**
   When asked to provide examples of "best practice" in reporting, companies all referred to recognized leaders in reporting as sources of influence. This included companies within their industry, location or size, but also those companies that were recognized for a particular aspect of their reporting. For example, many referred to

BP's approach to stakeholder engagement, Nike's supply chain disclosure, Novo Nordisk's integrated report and Starbucks' format and distribution as effective techniques. This reflects the common challenges companies face when determining how to talk about corporate citizenship and how best to engage with their audience.

### Engaging with external stakeholders

All companies incorporated some form of interaction with stakeholders to receive input on the content of their reports. Doing so helped get a better perspective on what issues were most important for stakeholders and provided feedback on the level of detail they expected to see in the report. Engagement also explored ideas for addressing issues and identifying stakeholder expectations about the company.

The process of stakeholder engagement, while important for the purpose of reporting, was also a means for inviting stakeholder feedback on companies' corporate citizenship more broadly. Indeed, as was made clear in the cases of Gap, Seventh Generation and Telefónica, stakeholder engagement was seen first as an opportunity to build relationships with, and learn about, stakeholders' perceptions of corporate citizenship risks and opportunities, and only secondarily as a means of determining the content of the social report.

Despite the broader purpose of stakeholder engagement, using the report as a starting point for engaging with stakeholders created, according to an interviewee from Telefónica, a "safe space" for dialogue. Focusing on the most material issues facilitated a more productive conversation. However, limiting the conversation also limited the potential benefits of engagement. For instance, Seventh Generation seeks to use its report as a means of engaging others in its goal of achieving fundamental systems changes that will increase sustainability. By limiting discussion to the report, Seventh Generation felt, there was an opportunity missed to engage on the issues themselves.

The first step to engaging with stakeholders is, of course, to identify them. Companies did this in a number of ways. Some engaged third-party groups such as Ceres, AccountAbility and Sustainability, each of which has its own network of practitioners focused on key social and environmental issues. For instance, Ceres convenes panels comprised of members of the Ceres coalition, which includes companies, NGOs, trade Unions and investors.

External organizations, in this process, served as brokers that created the ground rules for the engagement. As an interviewee at Nestlé commented, existing relationships with the stakeholder representatives was important for the success of the sessions. Working with Accountability allowed Nestlé to convene panels in three geographic locations which increased the scope of the feedback received. Another example was Gap, which, facing a shareholder resolution regarding reporting, worked with a group of socially responsible investors to develop a framework for reporting on its supply chain and other issues. The SRIs, as investors concerned with a broad group of issues, were able to provide a third party perspective on both current and future issues facing the company.

### Ceres stakeholder process

Baxter has been a Ceres company since 1997. Ceres is a Boston-based NGO that brings together investors, corporations and civil society organizations (including unions and NGOs) that are concerned with advancing important sustainability issues such as responding to global climate change. Ceres works with companies to provide stakeholder input into reporting and disclosure of environmental and social issues. It is also the organization that launched the initial GRI Guidelines.

Ceres convenes stakeholders to provide feedback on company reports. Each company has a stakeholder team that provides comments before, during and after the report is finalized. The stakeholder team is comprised of different members of the Ceres coalition, in Baxter's case: three investor representatives, two corporate representatives (from different industries), three environmental NGOs and several other NGOs, some with specific knowledge of the healthcare sector.

Working with third parties experienced in facilitating stakeholder engagement also allows companies to benefit from their established methodologies for analyzing the issues raised by stakeholders. Both AccountAbility and SustainAbility have developed processes for prioritizing issues based on stakeholder concerns. Similarly, Ceres provides companies with summaries of feedback from its engagement sessions and can also work more closely with companies on their reports.

#### Telefónica's stakeholder engagement process

Telefónica developed its own process for stakeholder engagement, which it is using at both a group and country-level to determine corporate citizenship priorities. It is the second step of the management process, helping Telefónica to identify the key social and environmental issues its stakeholders perceive to be associated with its business. Stakeholder panels are conducted on an annual basis at both a group and country-level. While Telefónica's central corporate responsibility team has been leading the sessions to date, country-level managers are expected to manage the process in the future. Although the process is part of Telefónica's system for identifying corporate citizenship priorities, the findings from the engagement sessions also inform the content of its reports.

The key benefit of the process has been to localize the setting of corporate citizenship priorities within the group. Although Telefónica has a common framework for managing corporate responsibility, it acknowledges that the key challenges in

### AccountAbility – AA1000 Principles

The AA1000 framework, developed by AccountAbility uses the principle of "inclusivity" as a foundation. Inclusivity is defined as an organization's commitment to identify, engage with and respond to stakeholders, and account for performance.[8] Under the AccountAbility standard, inclusivity is achieved by engaging with stakeholders. Through engagement, companies are able to ensure that they address three additional principles: materiality, completeness and responsiveness.

AccountAbility's process for determining materiality is based on an assessment of an issue's "relevance" and "importance." Accountability uses a five-part process to help companies identify the relevance and importance of different issues.[9] This involves identifying issues in relation to: direct financial impacts, policy-related performance, organizational peer-based norms, stakeholder behavior and concerns, and societal norms. Once relevant issues are identified, they are prioritized based on importance.

### SustainAbility

SustainAbility's framework is based on three concepts: the degree of societal concern surrounding an issue, the potential impact of the issue on the business, and the degree of control that a company has over an issue. Issues are identified either through research or by engaging directly with stakeholders. Once identified, the issues are mapped on a matrix to determine what should ultimately be included in the report.

Colombia will differ from those in Spain or the United Kingdom. By engaging with local stakeholders, the central corporate responsibility team based in Spain is able to understand the nuances of managing corporate citizenship across the group. More importantly, country managers are able to adapt their corporate citizenship programs – and their reports – to suit their local circumstances.

## Engaging with internal stakeholders

Much emphasis on determining the appropriate content for the report focuses on "societal concerns" or external stakeholder opinions. However, with employees and internal stakeholders as a key audience of the report, it is important that the content of the report reflects employees' own corporate citizenship concerns. For an employee at Gap, for instance, the company presented in the report

[8] AccountAbility. 2008. 'AA1000 AccountAbility Principles'. (www.accountabilityaa1000wiki.net/index.php/AA1000_AccountAbility_Principles).

[9] http://www.novonordisk.com/sustainability/values_in_action/Assurance/materiality.asp

must be "real" for employees. In addition to providing an insight into the information that is relevant from an employee engagement perspective, companies found that employees had a valuable perspective on information about the key corporate citizenship risks and opportunities facing their organization. Finally, involving more employees in the process of reporting is a means of raising awareness of the report and opens opportunities to deepen engagement.

Companies had a range of mechanisms for engaging with employees – some more formalized than others. For example, Nestlé and Telefónica held meetings with key employees responsible for contributing to the reports. The purpose of these meetings was to prioritize content for the report. Similarly, State Street's community affairs team, which is responsible for preparing the report, engages directly with employees responsible for providing information, in order to improve the content of the report.

Baxter is in the process of integrating its reporting process with the activities of its newly formed Sustainability Steering Committee. By aligning the content of the report with the strategy set by this committee, Baxter hopes to use the report to reinforce the committee's priorities. Similarly, Novo Nordisk has a risk management committee that is responsible for identifying priority issues facing the company. These risks are reflected in the key performance indicators in the report.

Generally, companies in the study missed the opportunity to truly engage with internal stakeholders during the reporting process. Even though internal stakeholders represent a valuable source of information, most companies only had limited formal processes for engaging with employees, relying instead on the reporting manager's knowledge of the prevailing internal views. At Seventh Generation, for example, although employees interviewed were engaged in the company's mission of sustainability, there was a lack of ownership of the report and reporting process. Rather than seeing the report as a reflection of their work, many employees observed that the reporting process was not built into their performance management processes. For companies with multiple offices – and particularly those whose operations transcend state or national boundaries – failing to ensure that the report properly reflects the concerns of a global work force creates a risk that the report presents a biased representation of the company, reducing its utility as a tool for company-wide employee engagement.

## Using the GRI Guidelines

The Global Reporting Initiative Guidelines were used by each of the companies in the study in their most recent reports, but the degree to which they were applied, the companies' level of experience in using the GRI, and the manner in which the companies used the GRI varied significantly.

Companies identified a number of benefits associated with using the GRI. Chief among these were that the existence of a common framework provided a benchmark for disclosure, allowing companies to deter claims of "greenwashing." By reporting against agreed standards, companies were able to demonstrate a commitment to transparency and, through the degree to which the indicators were applied, a benchmark against their peers. Another benefit associated with the GRI was that it provided a starting point for identifying information that should be included in the report.

There were also many challenges identified with the GRI. A key complaint about the GRI was that the indicators represented a "laundry list" of information for companies to report on. This has been addressed in some cases by the existence of industry guidelines, but was still a recurring theme. The sheer number of indicators and resources required to report against them all deterred some companies from applying the guidelines in full. At a certain point, the additional resources required to respond to more indicators outweigh the benefit from greater disclosure. This concern was keenly felt by Seventh Generation, the smallest and only privately held company in the study. Although Seventh Generation is committed to transparency, it experimented with a "GRI-lite" report to reduce the burden of producing a full report. The ambiguity of the indicators was also cited as a negative aspect of the GRI. While the benefit of ambiguity may be that it allows standards of best practice to emerge, it reduces the comparability (and therefore the competitive opportunity) of reports.

Companies tended to use the GRI as a guide, rather than an absolute standard for disclosure. Exceptions to this were Telefónica, which set an internal requirement that all reports achieve the highest application level of the GRI, and Novo Nordisk. Other companies used the GRI as a starting point for identifying issues, rather than a comprehensive list upon which to base the report. Rather than the goal of responding to all the indicators driving the content of the report, companies instead decided what they wanted to report using their own tests for establishing materiality. The GRI was a source of definitions for presenting certain information. It seemed that where no additional effort was required to report in accordance with the Guidelines, companies would do so. However, the benefits of reporting against additional indicators were always weighed against the costs of doing so.

# Preparing the report

One key lesson from this study: It is the process of preparing the report that offers the greatest opportunities for leveraging the performance management benefits of reporting. In essence, preparing a report creates a de facto performance management system, as it requires collecting key performance data, analyzing performance and identifying areas for improvement. By requiring employees and consultants to collect information and analyze performance on a regular basis, companies create incentives to improve performance. The report creates a reason to ask for information from colleagues across the company in a context that is time-sensitive rather than "nice to have." The experience of companies in the study was that the reporting process helped reinforce the importance of managing social and environmental issues.

Regardless of the company's level of experience with reporting, the amount of time and resources it took to prepare reports was significant, and viewed as a burden by contributing staff. For many employees involved in the process, reporting was seen as an additional task rather than a priority. As companies became more experienced reporters, data collection systems became increasingly formalized and opportunities were found to streamline the reporting process. In the earlier stages of reporting, the process of preparing the report provided an opportunity to build networks across the company and start to establish internal feedback loops, despite frequent complaints from employees about the additional reporting burden.

Some of the common challenges seen in the preparation process were:

- Building cross-functional support for the report and reporting process
- Collecting data efficiently while ensuring accuracy and consistency
- Balancing time spent on reporting with time spent on project management

### Building a cross-functional team

All companies used some type of cross-functional team to prepare their reports, with the process led by a small core team. In general, the core reporting team was either in the corporate citizenship/CSR team, or in an externally facing role such as public affairs or communications. This core team coordinated data collection from across different business units including environment, human resources, operations/sourcing, real estate, investor relations, public affairs, product development and international site managers. In addition, employees from legal, marketing investor relations, public affairs and communications were all involved in the preparation or review of the report and in some cases an external author was used to write the report.

Across each of the companies, interviewees beyond the core team were supportive of a process that allowed them to gain a better understanding of the overall objective of the report. By engaging with contributors and reviewers early, the core reporting team was able to:

- Build greater understanding of why information was being collected, reducing resistance from employees in other groups tasked with collecting the information
- Incorporate feedback from employees with more detailed understanding of specific issues being covered in the report, such as environment, allowing the report to better reflect internal priorities
- Identify areas of concern up front and work through issues so that statements or information in the report were not a surprise to senior management when the report was in the final stages of review
- Create ownership of the reporting process and the report, and increase awareness and dialogue around the issues it contains

In practice, interviewees across the study reported, a useful step was to hold a meeting for key employees involved in contributing to or reviewing the report six to nine months prior to the expected completion date of the report. A meeting was found to be a useful way of ensuring everyone had a common understanding of the objectives of the report. This allowed those contributing information to suggest alternative information that might be relevant for the report or to develop more appropriate indicators to capture performance. Similarly, it helped those reviewing the report to understand why it was important to disclose particular information and to identify problematic areas early.

For example, Nestlé brought together employees from a wide range of functional areas to provide feedback on the initial outline of the report. Representatives included senior managers from its Operations, Sourcing, Human Resources, Investor Relations, Public Affairs, and Health, Safety & Environment teams. One employee described the process as "democratic," in keeping with Switzerland's long history of civil participation. Employees at Telefónica noted that having an in-person in the meeting to discuss the report afforded an opportunity for them to gain a broader perspective of the issues that the corporate responsibility team manages and to understand how different issues are prioritized.

Email and phone calls proved less effective at building and managing the cross-functional teams. They reduced contributors' ability to see the greater context of the report and to understand why information they provided was relevant or irrelevant. While this did not necessarily seem to detract from the report or reporting process, it did seem to be a missed opportunity to reinforce the network of contributors across the company and to create greater ownership of the report beyond the core reporting team.

## Data collection

The challenges associated with data collection – even for the most experienced reporters in the study – were myriad. However, it was also through the data collection process that opportunities arose to engage with employees across the company who would not otherwise be involved in corporate citizenship activities.

### Identifying data sources

In some cases data could be extracted from existing data management systems or other sources such as PeopleSoft for human resources information, environmental, health and safety records, or annual financial reports for economic information. However, even where common data collection systems existed, the information inputted across companies, particularly those operating across national borders, varied depending upon regulatory requirements or local priorities. For example, employee demographics are not universally collectable, "regulated waste" covers different items depending on the country, and determining total taxes paid is not always as simple as it might sound.

Complications also arose where internal performance indicators differed from the information demanded by external audiences. In some instances this was because information was not captured for the purpose of assessing corporate citizenship performance, requiring additional processing in order to provide the information needed for the report. For example, utility bills are commonly monitored on a cost rather than consumption basis. For Gap, which operates thousands of stores across the United States, the information available varied depending on the different lease agreements in place. While some stores paid utility bills directly, others that were part of larger shopping complexes have these costs incorporated into their rents – meaning there is no individual meter for the store's electricity consumption.

Another point made by interviewees is that employees who hold information about electricity consumption do not typically engage in corporate citizenship activities – collecting and reporting this information was seen as a burden beyond their assigned role. A formal process – with clear support from top-level management – helped to improve employees' willingness to contribute to the report as it sends a strong signal that the report is considered important.

**IT systems for capturing information**
Collecting information for the report presented a very real technical challenge for companies in the study. For instance, Nestle has global operations in nearly every country, and a decentralized management structure has only recently adopted a common information management system – something that Peter Brabeck, the former CEO, has acknowledged had posed difficulties for preparing a social report.[10] Even where a common platform or combination of platforms existed within companies, Seventh Generation was alone in having a performance management system that integrated social and environmental information into its enterprise resource planning (ERP) software.

Seventh Generation adapted its ERP system so that it provides detailed information about the environmental impact of products. The goal of this is to allow managers to assess both the financial, as well as environmental impacts when making decisions. For example, the ERP system can be used to calculate both financial and carbon costs associated with different transportation options, helping to determine the most cost- and carbon-efficient means of moving goods. Although the primary motivation was to improve managers' ability to improve environmental outcomes, the ERP is a valuable source of information for the report.

[10]Reference to Brabeck's speech on the Nestlé web site, which is referenced in the case study.

For most companies, the process of data management centers on using email and Excel spreadsheets. This information may be supplemented by data from PeopleSoft, depending on whether the company has a common system across its operations. That said, personal contacts rather than institutionalized systems facilitated the collection of information, which some companies saw as a limitation to the system. Telefónica, in particular, noted that it has set the "depersonalization" of the reporting process as a goal going forward. Rather than relying on key individuals for access to information, the reporting team aims to create formal systems for data collection across the group.

Several companies were experimenting with purpose built software for data collection. For example, State Street uses One Report, an online data collection system and Telefónica uses Circle360. While these systems make it easier to manage information, replacing Excel spreadsheets, both systems still require that information be entered manually. This creates an additional task for employees and increases the risk of user error. Despite the extra work, employees at State Street were generally supportive of the One Report system, as it allowed them to see (but not alter) the information that other contributors were providing from across the company, giving them a better understanding of the company's overall corporate citizenship performance. It also allowed them to see that others were also being required to provide extra information for the social report.

Adapting existing systems to better capture information for the report, or investing in a new data collection system, both require considerable commitments from companies. Adding new indicators to existing systems or introducing a new IT system requires considerable time and resources. IT systems (in many cases not designed to capture nonfinancial information) require adjustment, policies and manuals must be altered, and employees need to be retrained. For example, Nestlé has been able to use a new global information management system to gather information for its most recent report, such as global environmental performance indicators. As noted earlier, the content and performance indicators contained in reports are still evolving, meaning some companies, for instance Novo Nordisk, prefer to wait until there is greater consensus around what data must be collected before adding new indicators to existing IT systems or creating new systems.

**Challenges posed by qualitative data**

The challenge of collecting information for the report was not limited to quantitative data. Obtaining qualitative information was also difficult, whether it meant identifying narratives to explain performance or collecting stories and vignettes to bring life to the numbers. Stories generally need to be collected as events occur or they are forgotten. It is also difficult to communicate the stories that are needed for the report. Baxter tries to overcome these challenges by sending regular email requests for stories, including examples of topics in the message. At Novo Nordisk, all employees are interviewed by the external author of the report, which allows contributors to explain what the numbers are saying and provide their insight into performance during the year. Seventh Generation draws on an internal newsletter called "Inner Piece" which compiles stories throughout the year.

It took time, however, for these mechanisms to result in better flows of information. This was due, in part, to employees' need to became more familiar with the content of the report. In Nestlé's case, once employees saw information that was presented from different parts of the organization – for example, environmental awards – they began to proactively provide information about initiatives taken in their own part of the company.

**Ensuring information is accurate and consistent**

Collecting data is only the first step. Reporting teams next have to make sure the data is accurate, consistent and relevant. Whether the report is prepared primarily as a tool for engaging with stakeholders or for the purposes of performance management, accurate data is crucial. The risk of inaccurate statements is that the report will destroy the confidence of stakeholders rather than improving trust and, since the legal case of Kasky v. Nike, may expose companies with U.S. operations to possible legal actions.

The greatest risk is reputational. In today's world video footage from a factory in India can be disseminated with lightening speed around the world. This concern led Gap to include additional explanatory footnotes in the published results of its supplier audits as certain indicators suggested performance was more positive than expected due to the difficulty associated with measuring certain sections of its supplier code, such as those relating to discrimination or freedom of association.

**External Assurance**

Engaging a third party to provide assurance of the report is one approach that companies are taking to give comfort to both readers of the report, and to internal stakeholders concerned the report must be an accurate representation of the company. Companies in the study varied in their approach to external assurance. While Novo Nordisk and Telefónica both engaged "Big Four" accounting firms to audit their nonfinancial reports, others such as Baxter, Nestlé and State Street worked with boutique sustainability assurance firms, while Gap and Seventh Generation included stakeholder statements in their reports.

Similarly, the scope of the assurance provided in the reports varied. Some companies had only specific information in the report assured. Gap only sought assurance of its supplier audit process. Other companies, such as Novo Nordisk, sought to establish an assurance process that was as robust as that applied to its financial information.

As set out in more detail in the following section, each of these approaches provided different benefits to the companies and the readers of the report. From a communication standpoint, some companies, particularly those engaging with investors, such as Novo Nordisk and Telefónica, or those that were under intense scrutiny, such as Gap, use the assurance process as a signal to readers that the company was concerned with the accuracy of the disclosure. For other companies, such as Baxter and State Street, the audit process proved to be a means of improving or reinforcing the performance management aspects of the reporting process.

## Different approaches to external assurance}

External assurance is a growing trend in social reporting. KPMG's triennial survey found that the use of formal third-party assurance of Global Fortune 250 companies rose from 30 percent to 40 percent in the past three years.[11] Similarly, Corporate Register published a recent study looking at different approaches to external assurance and assessing the meaning of assurance statements. Companies in the study adopted different approaches to assurance, from verification of a limited number of key indicators to a principles-based audit along the lines of the U.S. Sarbanes-Oxley requirements. Here are some observations about the lessons learned.

### Purpose of assurance

Given the difficulties associated with data collection and consistency, one of the key reasons for assurance was to ensure accuracy.  Having a third party, experienced in verification of nonfinancial statements helped provide additional comfort that the information was correct. In the case of Novo Nordisk and Telefónica, both of which issue integrated reports, the decision to audit the information was driven by their boards. As an employee at Novo Nordisk observed, there is no question that nonfinancial indicators must be audited – they are standing alongside financial figures.

Verification of results may also serve as a key part of a performance management system. Not only does it ensure accuracy when assessing performance, but also identifies areas for improvement. Both Baxter and Gap approach the audit process in the spirit of ensuring the systems and controls they have in place do allow them to properly manage their key corporate citizenship issues: for Baxter, environmental performance; for Gap, supply chain audits.

Finally, external assurance is a signal to the reader that the report is a serious product, not a marketing brochure, a point as important for employees preparing the report as for its ultimate audience. At Baxter, Novo Nordisk, State Street and Telefónica, the audit process reinforced the importance of the report among employees contributing to the report – elevating the status of corporate citizenship issues.

### Scope of assurance

The scope of the assurance processes varied among companies; each had to define with its auditor clear scopes of work and materiality thresholds. A common starting point was to verify a limited number of key indicators, typically the most sensitive issues in the report. The process involves an assessment that there is no material misstatement of

[11]http://www.kpmg.com/SiteCollectionDocuments/International-corporate-responsibility-survey-2008.pdf

these indicators. This requires the auditor to consider both the methodologies applied and assumptions made, as well as the processes for collecting information.

Companies may also expand the scope of the assurance to the entire report. In this case, companies must first establish materiality thresholds with the auditor, who will then assess the information in the report and the overall impression of the report to assure that there is no material misstatements. One standard used to inform this assessment is the AA1000 Assurance Standard, developed by AccountAbility. The AA1000 requires verification that the report meets the criteria of materiality[12], completeness, responsiveness and focuses on whether these criteria have been integrated into companies' management systems for reporting.

**Who should conduct the audit**

When it came to deciding who should conduct the audit, companies varied in their use of "Big Four" accounting firms, boutique sustainability or environmental assurance firms, or stakeholder representatives. Decisions were driven by consideration of the purpose of conducting the audit and the resources available to cover the cost of the process.[13]

Novo Nordisk and Telefónica both had their reports assured by Big Four firms. Largely, this decision was driven by the Board's direction that nonfinancial information be audited to the same degree as the financial information. In the case of Novo Nordisk, for instance, where shareholders are the primary audience of the integrated report, using a Big Four auditor was considered a necessity.

Baxter, Nestlé and State Street each used boutique audit firms to verify the information in their report. Baxter does so in support of its goal of continuous improvement process for managing environmental performance. Nestlé and State Street determined that the greater specialization of the smaller firm allowed for a constructive appraisal of its corporate citizenship management processes.

Both Gap and Seventh Generation preferred to rely on stakeholder representatives to assess their report. For Gap, the review was limited to the supplier audit results. The purpose of the audit was to provide comfort to readers that the program was as Gap described it. As a Gap interviewee noted, given the sensitivity of the issue, having a stakeholder respected by potential critics review the information would provide more comfort to readers than a state-

[12]The term 'materiality', when used in the context of the AA 1000 criteria, means material in that it would impact on stakeholders' decisions in relation to the company.

[13]Based on rough numbers provided by companies, the cost of the audit ranged from five to six figures.

ment from an accounting firm. In Seventh Generation's case, no assurance of the report was undertaken, but feedback received from the Ceres stakeholder panel that reviewed the report was included along with statements noting how the observations had been incorporated into the final report.

**Perspectives on the audit process**

Despite the costs in terms of time and resources, companies found that the process of the audit was valuable – although not necessarily because of the message it sent to readers of the report. The key benefits associated with the audit process included:

- The internal reinforcement that having a third party verify information provided; and
- The feedback received from the auditors about how the quality of information or the reporting process could be improved.

Where companies did find that third-party verification did provide comfort to external stakeholders, it was because engaging a third-party signaled that reporting was taken seriously. Stakeholders did not seem to pay much attention to which approach to assurance was chosen.

Companies found that having a third-party verify either the processes for preparing or the content of the report helped to elevate the perceived importance of the report internally. It also helped to reinforce the materiality of different corporate citizenship issues. For example, at State Street, the Community Affairs team found that having a third party to push an issue, in this case corruption, helped to convince internal stakeholders that it was a topic of interest for stakeholders and should be addressed in the report.

Upon completion of the audit, the auditor provided both an assurance letter for publication in the report, and a detailed report identifying areas for improvement, for internal use. While most companies only make the assurance letter publicly available in their reports, Novo Nordisk also publishes the detailed report on its web site. Even where the information was not made publicly available, the feedback helped companies identify how their reporting processes could be improved and provided external support for changes.

## Balancing the time spent on reporting with time spent on project management

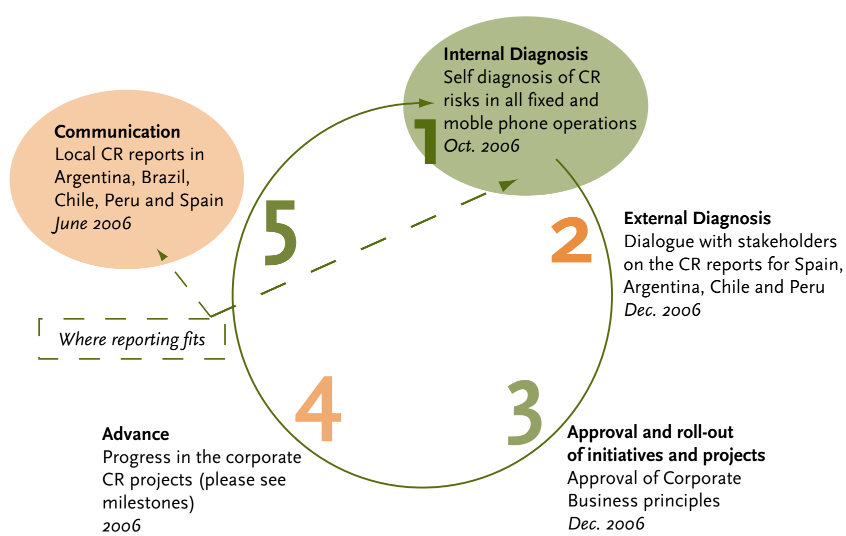
Social reports take a lot of time and resources. A conscious effort is required to ensure the focus for a corporate citizenship team remains implementing programs and achieving targets – rather than merely producing a social report. Even for companies that have been reporting for more than 15 years, such as Baxter and Novo Nordisk, ensuring the report remains a means and not an end in itself has been a challenge.

One way to address this concern is to have a clearly designated team responsible for preparing the report. In particular, having a dedicated writer (whether internal or external) to prepare the report helps relieve the load from employees contributing information and reduces the amount of time spent editing the report to ensure consistency.

Companies also navigate this challenge by integrating reporting into their performance management systems. Producing a social report can lead companies to identify their current position, assess their key risks and opportunities, develop strategies for improvement and regularly report on progress.

The discipline of reporting can extend to managing corporate citizenship. However, to ensure the process is productive, a conscious effort must be made to use reporting to support a broader performance management system. For example, as Telefónica evolved its approach to corporate responsibility, it used reporting to support the first and last steps in its corporate responsibility management process: identifying issues and measuring progress. By focusing on using the report as part of a broader process, Telefónica tries to ensure the report reflects corporate strategy.

### Telefonica – CR management model



While the report remains a useful tool for driving performance, this function is distinct from driving priorities – a tension that both Novo Nordisk and Baxter have had to overcome in the past. For example, in 2007 Baxter created a Sustainability Steering Committee comprised of VP-level employees from across the group. The SSC is responsible for identifying sustainability priorities and determining key performance indicators.

For companies in the early stages of developing a corporate citizenship strategy and building internal governance mechanisms, reporting can be an important tool in mapping corporate citizenship impacts, identifying strategic priorities and building and engaging a network within the company – in short, all the elements required to establish a strategic process for managing corporate citizenship.

## Format and distribution of the report

If the process of preparing the report emphasizes performance management, the process of producing and distributing the report highlights communication. Throughout the Center's research, a poorly kept secret revealed itself: companies view the social report as an important communication tool, but they were frustrated with its effectiveness in communication. Seventh Generation's experience with its first report is a prime example. Despite wining an award for the best small business report from Ceres, a key employee noted the report received little attention from the audience to which it was directed.

Some of the key problems companies faced in relation to the best format and distribution channels for the report included:

- Determining the best format with which to reach different audiences – whether online or printed, live or static, long or short
- How to ensure that the report reaches its target audience
- Finding ways to monitoring feedback about the report

The key questions companies faced in deciding on the best format and distribution mechanisms for the report all centered on the elusiveness of the report's audience. Length, format and distribution channel questions require clearly defined target audiences. But social reports are meant to serve many audiences with different needs.

Research revealed an emerging focus on using the report as a foundation or first step for communicating with stakeholders, rather than an attempt to be all things to all people.

The emergence of the Internet as a communication tool has had an enormous impact in this regard. Having a broader report or repository of information online was seen as a valuable tool to underpin a broader communication strategy. This information could be made easily available, and then tailored for specific audiences. The larger social report established credibility – served as a backstop – for additional, shorter, communication documents.

## Deciding on the format of the report

The different formats used by companies included printed reports, summary brochures, static online reports in PDF format, interactive online repositories of information and shorter communication pieces such as in-store messaging. Some companies prepared different documents for internal and external audiences, which allowed them to present common content in a way that better resonated with each audience. No company felt entirely comfortable that its current combination of products was an effective method of engaging with its key audiences. Here are the pros and cons of the different types of documents produced:

### Printed reports

Each of the companies in the study produced some sort of printed report and many had experimented with different lengths and formats. Despite concerns about cost, the environmental impact and the difficulty in distributing a printed document effectively to stakeholders, companies felt having a formal, printed report gave the information greater substance. Senior employees who participated in the interviews, in particular, noted they used the printed reports when engaging with senior counterparts at supplier or customer organizations. As Alisa Corbett, a senior marketing employee at Baxter noted, the Sustainability Report represents Baxter as a company and allows customers to see it as "a living, breathing organization that is committed worldwide to make a difference across many important dimensions," not limited to the products it sources. Similarly, State Street chairman and CEO Ronald Logue noted that the CSR Report is the only document that describes the "whole" company and that he ensures copies are available in the meeting area outside his office.

Most interviewees were skeptical that the printed reports were ever read by stakeholders – but they still found value in the report's ability to signal the company takes both reporting and its corporate citizenship programs seriously. The printed reports were expensive to produce and, as several interviewees pointed out, inconsistent with stated commitments to reducing environmental impact. To address these concerns, companies had shortened the report, with a trend of shifting more information online and using the printed document as an executive summary rather than a full report. Further, many companies had reduced the number of copies printed and limited distribution to the company's core stakeholders.

### Online reports

For companies in the study, the Internet was seen as a core element in their strategy for distributing the report. With reporting evolving in parallel with the Internet-driven communications, companies were experimenting with the most effective way to present information online. Some of the approaches included publishing the report as part of the company web site, divided into content sections. Another approach was to publish a static (PDF) version of the printed report online. Most companies used a combination of these approaches. Other companies were experimenting with more "live" online communication. Seventh Generation CEO Jeffrey Hollender has a blog that creates a more up-to-date dialogue with stakeholders. Several interviewees noted Timberland's decision to publish key performance indicators on a quarterly basis through the social networking site Just Means.

The biggest benefit of using the Internet is that it allows companies to provide a large amount of information in a way that is not overwhelming. As noted earlier, responding to the needs of all stakeholders in a single document is impossible and results in an unwieldy and ineffective document. An advantage of the online format is that companies can provide information relevant to a broad range of stakeholders in a format that allows readers to readily access information most relevant to them. For instance, Novo Nordisk uses its web site to provide the nonfinancial information from its Triple Bottom Line report, along with additional information on its other initiatives related to human rights and sustainability on its CSR web site. Even though these initiatives are not included in Novo Nordisk's printed report – because its content is kept material to the target audience of investors – the company is still able to report on progress to interested stakeholder groups.

Although not mentioned explicitly by interviewees, publishing the report solely through a web site with no static form poses a possible risk of losing some of the performance management benefits. At several companies, such as Telefónica and State Street, having a deadline for producing a compilation of information in a static form was a useful way to reinforce the importance of collecting information across the company. At both these companies, as with Nestlé and Novo Nordisk, the deadline for publishing the social report is aligned with the company's financial report.

A static document also allows companies to measure progress – though this concern could be addressed through proper design online as well. At Gap, one interviewee noted that the reports were a useful reference for new and old employees interested in how Gap's approach to managing its supply chain has evolved.

**Executive summaries and brochures**
Companies had experimented with publishing smaller versions of the report for targeted audiences, from executive summaries to issue specific brochures. Although these documents contained less detailed information, they were felt to be more accessible for stakeholder groups. In addition, they could be tailored to the needs of particular groups. For example, Telefónica produces executive summaries of the report for each state in Spain. These include locally relevant information, such as infrastructure investment, jobs created and environmental impacts within the state. Telefónica has found these summaries to be an effective way to engage with local business associations and consumer groups. Similarly, Baxter encourages its international subsidiaries to translate the summary brochure of its report, and to incorporate local examples into the covering letter sent with the brochure to stakeholders. Employees noted they used these brochures when engaging with customers or suppliers.

Those companies that produced executive summaries or brochures did so with the backing of a larger repository of information – whether a printed report or web site – to which they could refer stakeholders seeking more detailed information on particular topics. Therefore, even though the brochure may be the primary publication physically distributed by companies, the larger social report retains its key role.

Despite the usefulness of report summaries, no company that participated felt that it had solved the problem of targeting audiences as well as it might. They are still searching for alternative methods of communication to engage stakeholders on corporate citizenship issues. For example, Gap is exploring different ways it could engage with customers in stores using spare space to its advantage. Several interviewees noted Starbucks' success in using in-store brochures to engage with customers. They drew a contrast between the customer experience in a Starbucks cafe and buying clothes in the Gap – for Gap to engage with customers in its stores, a brochure may not be the most effective tool.

## Distribution channels

Companies used a range of channels to distribute their social reports, depending on the format of the document and the intended audience. Most companies maintain a list of key stakeholders to whom copies of the printed report (whether the full report or executive summary) are sent. In some cases this list is maintained centrally by a public affairs or cor-

### Baxter's experience with the format of the report

Baxter first started exploring the possibilities of online reporting in the early 2000s. At the time, Baxter found that the social report had become unwieldy as the company responded to stakeholder demands for increasing amounts of information. To address this, Baxter decided to move the bulk of its content to an online format, reducing the printed report to a more manageable size. In 2003, Baxter took this a step further, publishing its full report online only accompanied by a 10-page summary. As Deborah Spak of Baxter Corporate Communications recalled, this decision was seen as "pushing the envelope" at the time, as most other companies were focused on including more information, not less. But the move was not well received externally and Baxter saw its performance in corporate citizenship rankings drop. As one employee observed, this was not because Baxter's programs or initiative had changed, but because people were unable to find the information they were seeking.

Baxter has now found a middle ground, with its social report comprised of the following documents:

- The full social report (more than 175 printed pages) is published online.
- 13,000 copies of a 40-page summary of the social report are printed.
- 15,000 copies of a 16-page summary brochure are printed. Baxter encourages its international subsidiaries to translate these as a tool for engaging local stakeholders.

porate communication team, as at Nestlé and Gap. The lists are compiled through requests for information received during the year, contact points at partner organizations and government officials. Companies also used a decentralized approach, where senior employees were responsible for sending the report to their key stakeholders. For example, Jeffrey Hollender sends Seventh Generation's report to CEOs with whom he engages and senior sales managers at Baxter send the report directly to their key customers.

In addition to making the social report available on their corporate web sites, each company in the study published a PDF version of their report on the web site Corporate Register. This web site is an online repository of social reports from companies all over the world. Some companies elected to go beyond Corporate Register's basic publication service and subscribe to its premium service, which includes notification to its membership base of the report's publication. Although companies used this service and found it useful for engaging with the "CSR community," as one interviewee described it, companies found it was a limited tool for engaging in a conversation about corporate citizenship with a broader group of stakeholders.

There were examples of companies holding a formal "launch" for their report, in some cases internal and others external. Nestlé launched its Creating Shared Value report in New York, inviting stakeholder representatives from civil society organizations, U.N. agencies, partner organizations and thought leaders in the corporate citizenship community to listen to a panel discussion led by then-CEO Peter Brabeck. In other years, Nestlé has used the launch event for its issue-specific reports to promote dialogue on particular issues, such as the role of business in Africa, or water. Companies adopted different methods of distributing the report to particular stakeholder groups:

**Shareholders**

All companies brought the report to the attention of their shareholders – both SRI and non-SRI. For Novo Nordisk and Telefónica, the annual report to shareholders now includes the social report; Novo Nordisk as an integrated presentation of the information and Telefónica as separate sections describing the company's "body" and "soul." Nestlé and Baxter include a section of corporate citizenship performance highlights in the annual report, and Nestlé also provides a copy of the issue-specific report published every year in its annual shareholder pack. Other approaches were to bring the report to shareholders' attention by including a card with instructions of how to access it online with the annual report or mentioning the report in the chairman/CEO's letter enclosing the report.

All companies made copies of the report available at the general meeting of shareholders. Several investor relations representatives interviewed noted that there were increasingly questions about corporate citizenship put to the Board during these meetings, even though the general sense was that shareholders were not very engaged on issues of corporate citizenship. To address this, Novo Nordisk, which views its Triple Bottom Line management process as a tool for reducing risk and identifying opportunity, is taking steps to educate shareholders about its approach. As part of this, Novo Nordisk convenes "sustainability roadshows" for investors, which are a combined effort of the investor relations team and the Triple Bottom Line team.

**Employees**

Though companies viewed the report as an opportunity to engage employees, all of them struggled with achieving this goal, and felt that the report was a somewhat limited tool for reaching employees effectively. One approach used by Baxter and Seventh Generation was to have an internal launch for the report. Baxter sends a voicemail from its CEO, Bob Parkinson, to every employee alerting them to the report's publication. Seventh Generation holds a lunchtime session to launch the report, using the event as an opportunity to engage employees about Seventh Generation's approach to corporate citizenship. Other companies ensure that reports are available in common areas, such as cafeterias, or distributed through stores in the case of Gap. At State Street, the social report is seen as the foundation of a broader campaign to position Community Affairs for the year.

Many noted that employees requested further information or submitted comments about the report (in Baxter's case, employees made significantly more comments via the company's web site than any other readers). Most felt the volume of information was an impediment to engaging employees on the underlying issues.

The key question is not just getting employees to read the report, but to understand what corporate citizenship means for the company, and how they can make a contribution to the bigger picture. Some ideas raised for engaging with employees in the future included using the employee intranet site to provide short pieces of information upon login, sending postcards to employees on a regular basis, and encouraging local plants to publish brochures with examples of corporate citizenship in action in their location.

One group of employees worth mentioning specifically is new recruits. Several companies, including Baxter and Gap, noted that the report was a valuable tool in the recruitment process. Baxter, as a business-to-business company, is not as well known as other medical products companies that it competes with for recruiting graduates. Having the report is a valuable tool to introduce Baxter to university students. For Gap, the reports provide new employees with a resource to learn about how Gap is tackling difficult issues such as supply chain and environment. Other companies acknowledged the potential of the reports as a tool for engaging new employees, but had yet to work out the best strategy for using the report.

**Customers**

Customers were an equally difficult audience. While all companies noted a growing group of consumers who are interested in knowing detailed information about corporate citizenship performance, most were not basing their purchasing decisions on these issues or were only interested in a limited amount of information. In contrast, companies noted that when their customers were also businesses, there was potential to use the report to advantage. For example, both Baxter and Novo Nordisk noted the value of having a report that described the nonfinancial activities of their companies to the medical professionals and hospitals who are their core customers. Although there was no tangible evidence of the report's impact, employees at both companies felt that it helped to build relationships and to inspire confidence in the company and its products. Nestlé also noted the growing demand for information, particularly about sustainability and environment, from major retail groups.

The real opportunity, as interviewees at Baxter, Seventh Generation and State Street observed, was not just to inform customers about corporate citizenship performance, but to engage with them to achieve joint improvements. By identifying areas for common action and learning from each other, there is greater potential to achieve positive impact and systems change.

### Monitoring feedback from the report

After all the effort that companies put into preparing and distributing the report, most found that there was a disappointing lack of feedback on the report. Indeed, aside from formal stakeholder engagement processes, all companies struggled to get feedback from readers. Some of the mechanisms used to obtain feedback were online surveys linked to the company web site and postcard surveys included in the printed report, however both had relatively low response rates. Companies also tracked downloads of the report from their web sites and "hits" on the online version. Baxter received 100 responses to its online survey, the vast majority of which were from employees.

Seventh Generation created an additional incentive for readers to provide their feedback in its 2007 report (published in 2008) by inviting readers to enter a contest. The "Spheres of Influence" contest asks businesses, organizations and individuals to communicate the one idea in Seventh Generation's report that inspired them the most and then show how they would use a $5,000 grand prize to carry out that idea. The contest is driven by the company's desire to encourage readers to reflect on the content of the report and be inspired to act on the ideas generated by Seventh Generation's work. At the completion of this report, the contest had not yet concluded, but the hope is that it will make the report a more effective tool for engaging stakeholders in the broader goal of achieving systems change.

# Conclusion

Although there were only a limited number of companies participating in this study, some common experiences with reporting were found from which conclusions can be drawn and future research can be guided. Here are some answers to the questions posed at the beginning of the report.

### Why do companies decide to report?

Companies decided to report for a number of reasons, related both to communication and performance management. In general, the push for momentum for reporting has been driven by external stakeholders, government agencies, multi-stakeholder initiatives and leading companies.

Two key issues emerged in the drive to report:

- **Communication:** Greater awareness of the opportunities to engage with these groups to achieve common objectives, as well as the risks associated with failure to engage are encouraging companies to report.
- **Performance management:** For some companies reporting was seen originally as a tool for performance management – particularly in respect to environmental performance. However, the benefits of having a regular assessment of corporate citizenship activities was also a starting point for other companies to use the report as a foundation for building a more strategic approach to managing corporate citizenship.

### What information should reports contain?

The recurring problem of identifying the audience for the reports made it difficult for companies to identify the best content for the report. Some audiences are interested in detailed information about specific topics, while others prefer a more holistic perspective of the company. Some audiences prefer stories and discussion of issues facing the company, while others want quantitative key performance indicators and goals.

When deciding how to balance these competing demands companies used a range of tools including internal discussion, stakeholder engagement, mapping key corporate citizenship risks and opportunities and linking to internal priorities. The emergence of common standards, such as the Global Reporting Initiative and increasing innovation among corporate peers were also key reference points for companies when determining content.

No company was entirely comfortable with the content of its report. All wrestled with the problem of balancing content for different audiences, and for the different internal purposes of communication and performance management. One common concern was that reports had too broad a focus, and strayed from the key issues and information with which companies and their stakeholders could best assess their performance.

### How do companies prepare a report?

Preparing a social report is no small task. For each of the companies involved in the study, having a dedicated team or staff member to coordinate the reporting process was key. The other piece of advice: start early and budget more time than you think you will need to complete the report!

Information collection was a major challenge as companies needed to build new systems and networks to obtain data for the report. In many cases, this meant engaging with employees who were not otherwise involved in managing corporate citizenship issues – for instance those in sourcing, legal, marketing and human resources. Companies experienced push-back from some employees, as providing information for the report created additional work. But overall the reporting process was seen as an opportunity to build a wider group of internal corporate citizenship champions.

As companies became more experienced with reporting, the challenge became institutionalizing the process of preparing the report so contributors were chosen based on their functional roles rather than through personal networks.

Each of the companies experimented with external assurance of the report. The assurance process was seen as a way to get feedback on systems for data collection, helping to make them more robust. It was also seen as a way to give comfort to internal and external stakeholders in the accuracy of the information.

### Do reports help companies engage with their stakeholders?

Companies view their reports as useful tools to engage with their stakeholders. They are frustrated by the lack of response and feedback on reports, but at the same time, they find the reporting process, and the end product, to be a platform for dialogue with groups ranging from civil society to public agencies to consumers. The reports were seen to create credibility for more substantive dialogue, despite the common complaint that reports can be viewed as self-serving marketing more than substantive support.

One key takeaway: the report itself cannot foster a lasting dialogue with stakeholders. It is one tool in the process, which helps identify key issues and also allows for a view of corporate citizenship practices over time. But companies found the report itself played a relatively small role in the stakeholder engagement practices they found most valuable for the company.

### Does reporting lead to managing what you measure?

Companies viewed the reporting process as having the potential to create a de facto performance management system. By identifying key material issues, creating a system to gather performance data on those issues, and integrating the reporting process across corporate departments, the report could help create the ability to change behavior.

In practice, however, companies found the reports had not yet fully developed into such a system. Many saw themselves as in the early stages of the process – still identifying key issues and metrics, with performance measurement, and the institutionalization of goals and targets against those metrics, a next step along the reporting path. One common concern expressed is that the report, as an end in itself, should not drive strategy, nor will the process, by itself, drive change. The report is instead a repository of information, and a process of data-gathering, that must be taken up and used by management in order for performance to improve.

## Where is the value in reporting?

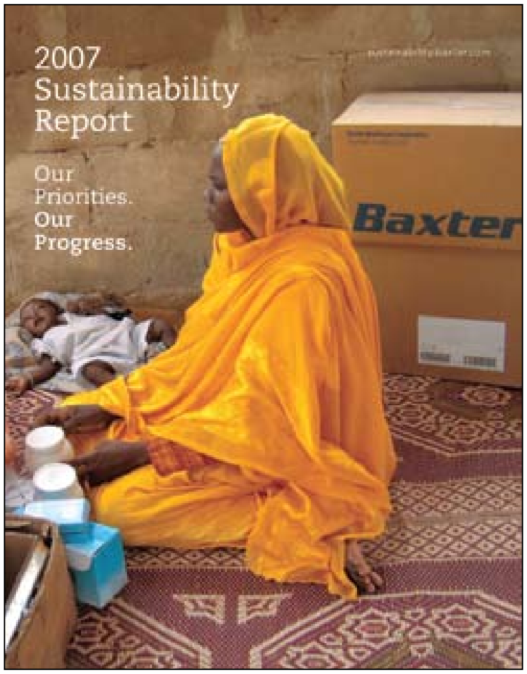
The key elements of a report are that it:

- Describes performance
- Requires measurement
- Tracks the evolution of corporate citizenship over time

Over time, a report can play a vital role in supporting improved corporate citizenship performance by establishing a benchmark to which companies can be held accountable by their internal and external stakeholders. However, at the end of the day, improving corporate citizenship performance is not about having a good social report. Instead, a social report must reflect what is going on within a company.

Unless companies strike a balance between the communication and performance management aspects of the report and reporting process, the report risks becoming disconnected and, again over time, less relevant and credible to stakeholders. Companies need to ensure that the content of the report reflects their key corporate citizenship priorities, which is only possible if they have a strategic approach to identifying and managing corporate citizenship. Although using the report as a responsive communication directed at addressing stakeholder concerns may be effective in the short term, the recurring nature of the report demands that companies also address longer term, systemic issues in the report to ensure it remains a relevant tool.

Ultimately the report should be seen as a means, rather than an end. Having an award-winning social report will not in and of itself improve relationships with stakeholders or improve corporate citizenship performance. These objectives are driven by a demonstrated commitment to addressing corporate citizenship issues in a strategic manner. A report can, however, create a foundation for engaging with stakeholders and build a framework for managing corporate citizenship. By establishing internal and external feedback loops, the report informs the development of a robust corporate citizenship strategy and creates an accountability mechanism that provides incentives for improvement.





## Baxter

Founded in 1931, Baxter International Inc. is a U.S.-based global health care company that develops medical devices, specialty pharmaceutical products, and biotechnology to save and sustain the lives of people with medical conditions including hemophilia, immune disorders, kidney disease, cancer and trauma. Baxter employs about 45,000 people in the United States and its 250 facilities located in 100 countries around the world. More than half of Baxter's employees are based outside the United States, as are half of its sales. Baxter's customers are hospitals and health care providers rather than patients. Most of these customers operate as not-for profits, whether they are hospitals, faith-based hospital networks in the United States or government-operated health care programs in Europe. These are mostly mission-driven organizations, not just commercial providers. Increasingly, the ability to demonstrate a "shared sense of mission" is a key way to maintain relationships with these core customers. Given this context, it is increasingly important for Baxter to be able to demonstrate its alignment with the missions of its core customers and to show that it has real commitments to achieving sustainability across its operations.

### Motivation for reporting

Baxter's first internal and external environmental reports were a means for the Environmental Health & Safety department to communicate its progress toward the environmental goals. The sustainability report now provides a baseline for continual improvement, enabling the company to demonstrate progress over time, and thereby advance its sustainability programs.

**Type of report**
Sustainability Report, piloting GRI guidelines

**Number of reports: 15**

**First year of reporting**
In 1992, Baxter produced its first external report focused on the environment. In 1999 the report evolved into a broader sustainability report as part of the GRI pilot and Baxter has continued to use the GRI Guidelines for its report.

**External assurance**
Baxter engages environmental consultants Arthur D. Little to audit the environmental information in the report. It does not externally verify other information in the report as it has not yet seen the business case for doing so, but the company is exploring the idea of expanded verification through its stakeholder engagement forums.

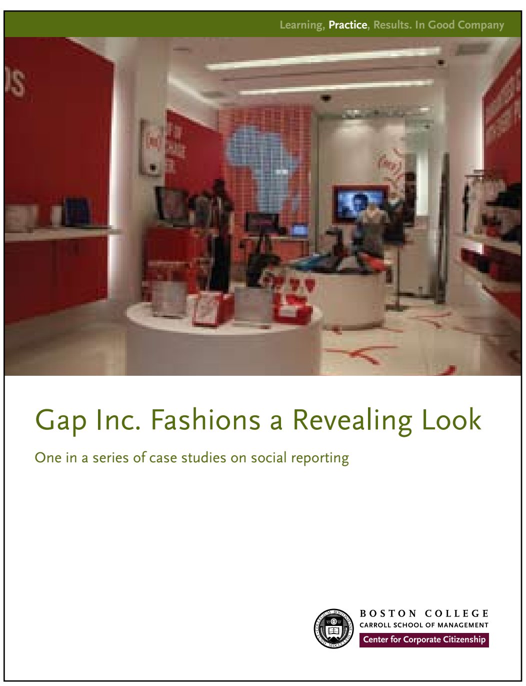
**Stakeholder engagement process**
Baxter has found seeking feedback from external stakeholders provides a valuable baseline from which to select indicators. The company has been a longtime supporter of Ceres and has used its stakeholders panel process since 1997.

**Key tensions and lessons learned**
While Baxter's Sustainability Report grew out of its environmental health and safety programs during the early 1990s, there is a tension between using the report to support strategic and program goals and the report becoming the goal in itself. As Baxter transitions to a new governance structure for sustainability, which includes the formation of a Sustainability Steering Committee comprised of leaders from across the company's functional area, there is an opportunity to address this issue. It is clear Baxter's commitment to transparency has benefitted its internal programs. However, for a drive to be constructively applied to programs that truly do advance sustainability in the context of an individual organization there must also be a robust management system in place for identifying priorities.

With facilities in more than 100 countries, the process of data collection for the global Sustainability Report presents three key challenges for Baxter: the need for a data management system that can capture the key sustainability indicators across the Group; ensuring that indicators are interpreted consistently across the company; and further institutionalizing the data collection process. Related to the challenge of global data collection is the challenge of determining what data to collect in the first place. Even though the GRI guidelines are useful, there are challenges to a one-size fits all approach and Baxter is particularly mindful of not being seen to force a U.S. bias to its report.


WHAT IS A COMPANY'S ROLE IN SOCIETY?

GAP INC. 2005-2006 SOCIAL RESPONSIBILITY REPORT




## Gap

The first Gap store was opened in San Francisco in 1969. Today Gap Inc. has grown to be one of the world's largest specialty retailers, with revenues in excess of $15 billion in 2007 and more than 3,100 stores in the Untied States, Canada, the United Kingdom, France, Ireland and Japan. Gap directly employs more than 150,000 people and touches many more through its 2,000-plus suppliers located around the world. Gap's business is operated according to its four brands: Gap, Banana Republic, Old Navy and Piperlime. The key focus among advocacy groups has been on Gap's supply chain practices and, while this remains one Gap's most material issues, the company is increasingly seeking to take a broader approach to its social responsibility program. Gap has embraced the idea that its social responsibility program is important to both Gap's reputation and commercial success, through employee retention and recruiting, strengthening the brand, promoting innovation and minimizing disruption in Gap's supply chain.

### Motivation for reporting

The first report was a means of addressing two issues that came to a head in 2002: the negative allegations being made against Gap and a proposed shareholder resolution from a group of socially responsible investors (SRIs) demanding that Gap report on the steps it was taking to address the substance of the allegations. The report has since evolved particularly on environment and workplace issues, and Gap explicitly used the report as a means of asking big questions about the role of a company in society.

**Type of report**
Gap produces a biennial social responsibility report, based on the GRI Guidelines and Apparel and Footwear Sector Supplement. Initially the report was focused on Gap's supply chain issues, but the content has evolved in subsequent years to expand coverage of environmental and governance issues.

**Number of reports: 3**

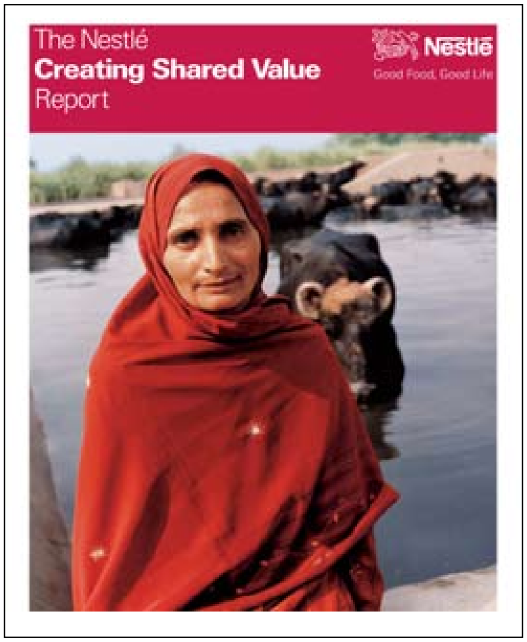
**First reporting year: 2003**

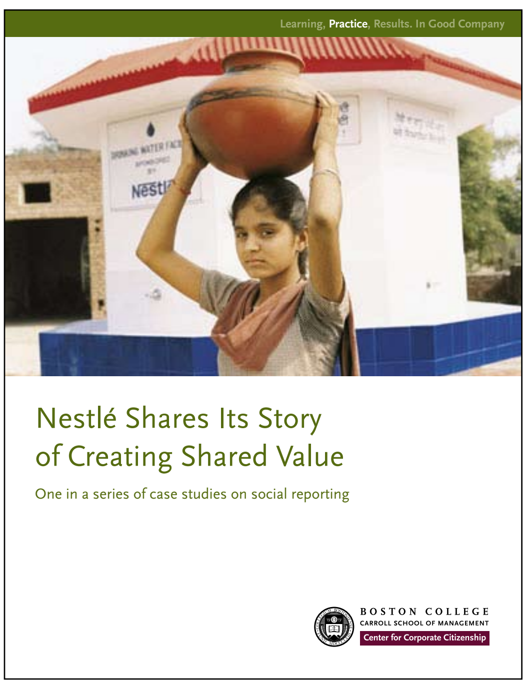
**External assurance**
Gap has not taken the approach of engaging a third party to verify all the information in the report, however, information in the report about Gap's supply chain is drawn from its vendor compliance program, which is verified by both Social Accountability International and the Ethical Trading Initiative in order to identify improvements for the program.

**Stakeholder engagement process**
External stakeholder engagement is facilitated by SustainAbility and the Public Reporting Working Group that was comprised of SRIs involved with the proposed shareholder resolution (Domini Social Investments and Calvert), along with the Interfaith Center for Corporate Responsibility (representing faith-based investors supporting the resolution), the As You Sow Foundation and the Center for Reflection, Education and Action.

**Key tensions and lessons learned**
One of the key challenges Gap faces as it strives to increase content is to ensure the report remains engaging to stakeholders and readers of the report. Reporting to change behavior rather than just to inform requires balancing detail with readability and managing the challenges of publishing a transparency report rather than a public relations report.

Collecting information that is timely, consistent, and accurate is another key challenge facing Gap's reporting. Due to the Kasky v. Nike court case, Gap applied an interpretation of "accuracy" that required Gap to be confident not only in the quality of the data, but also that the way the information was presented was not misleading.  Although the case did not deter Gap from its objective of transparency and full disclosure of its factory audits, it did mean that Gap approached this disclosure by adopting thorough internal verification of the data and developing robust metrics to support its statements. Prior to issuing its first report, Gap went through a lengthy process of stakeholder engagement to devise appropriate metrics for its supplier audits.
It has also sought to improve its data collection process, including the introduction of an online data entry system and extensive education about the meaning of indicators.




## Nestlé

Nestlé is the world's largest food and beverage company, with sales of more than us$80 billion and net profit of about us$8 billion in 2007, making it larger than its next two competitors, Kraft and Unilever, combined. Its global work force consists of about 275,000 employees and it has factories or operations in almost every country in the world. Nestlé's leadership position means that it is subject to the scrutiny of NGOs, consumers and employees around the world. Current issues the company faces include lingering controversy surrounding its infant formula products dating back to the 1970s and more recent NGO campaigns targeting fair-trade coffee and bottled water. Nestlé has historically not produced an annual "CSR report," however, this changed in March 2008, when Nestlé published its first fully comprehensive report on "Creating Shared Value".

### Motivation for reporting

CSR Reporting has been driven from a number of directions at Nestlé, both internal and external. Some of the drivers identified were: informing shareholders of policies and priorities related to environmental and social issues as adopted by the Board and senior management; being part of the current debate around social and environmental issues that impact the company's business; upholding commitments to initiatives such as the United Nations Global Compact by providing reports on progress; and taking opportunities to demonstrate leadership on issues of importance to the company and senior management.

### Type of report

Nestlé intends to publish a comprehensive report on Creating Shared Value biennially, complemented by the continued publication of issue specific reports and up-to-date information on the company's web site. Previously, the company focused on issue-specific reports covering: Environmental management, sustainability, water, coffee, Africa and Latin America

**Number of reports: 1**

**First year of reporting**
Social reporting at Nestlé began with information included in the annual management report in 1990. After that, the company produced issue specific reports, moving to a comprehensive "Creating Shared Value" report in 2008.

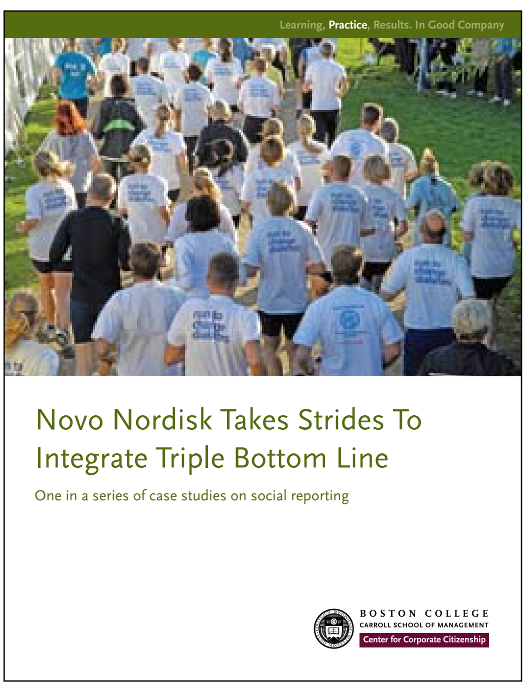
**External assurance**
In 2008, Bureau Veritas provided an assurance statement for the Creating Shared Value Report, as well as an internal audit of Nestlé Environmental Management System

**Stakeholder engagement process**
Nestlé has been progressively building its processes for stakeholder engagement around key issues, starting through the preparation of its issue specific reports. These reports have created a "platform for dialogue," providing opportunities to participate in debates rather than being the topic of debate.

**Key tensions and lessons learned**
While Nestlé acknowledges in its recent report that "external reporting of initiatives and key performance indicators can help drive improved performance internally," there was concern that the goal of reporting should not be allowed to displace Nestlé's focus on long-term value creation. Nestlé is taking steps to participate in initiatives such as the Global Reporting Initiative Sector Supplement for the food processing sector, which will allow Nestlé to focus both its reporting and management on issues related to its industry and to facilitate the creation of benchmarks among its peer companies. Reporting on common indicators will not only help external audiences to better assess where Nestlé stands relative to its peers, but it will also provide incentives to support Nestlé's culture of continuous improvement.

While Nestlé has long advocated a broader view of the role of business and the concept of "CSR," it is only just starting to identify effective ways to demonstrate what this means in practice. The Latin America report published in 2006 marked a first step toward providing metrics and examples to support this position, stating Nestlé should adopt a more holistic set of indicators to demonstrate how it creates shared value, and be more explicit about desired social impacts. As Nestlé moves to the biennial publication of a Creating Shared Value report, identifying indicators which demonstrate this concept pose the following challenges:

- Ensuring that the indicators selected drive performance in areas that matter given the nature of Nestlé's value chain and its business; and
- Finding ways to quantify the "indirect" impacts that Nestlé is able to impart through its business, where the company's impacts are not only related to its manufacturing processes and product, but also to interactions with suppliers and consumer habits.


## Novo Nordisk

Novo Nordisk is a health care company that focuses on two core business segments: diabetes care and biopharmaceuticals (hormone replacement therapies, human growth hormone, hemophilia treatments). The company was formed in 1989 after the merger of two Danish companies: Novo Industri A/S and Nordisk Gentofte A/S, both founded in the 1920s. From its roots in Scandinavia, Novo Nordisk has grown to be a global company and employs more than 26,000 people in 80 countries. It has a market presence in 179 countries around the world and, in particular, is growing its presence in the United States. Novo Nordisk is recognized as a leader in sustainability and, in particular, sustainability reporting and has been the recipient of numerous awards, in Denmark and globally. Since 2004 Novo Nordisk has published an integrated annual report that sets out the company's financial and nonfinancial performance. This has required the integration of Novo Nordisk's former "sustainability reporting" into the company's annual report to shareholders.

### Type of report

Novo Nordisk first published an environmental report in 1994. In 1998, in addition to the environmental report, the company published a separate social report. Novo Nordisk merged the two in 1999 in a sustainability report using the GRI. When Novo Nordisk integrated the Triple Bottom Line into its Articles of Association in 2004, it integrated the sustainability report in the annual financial report for a true TBL report.

**Number of reports: 14**

**External assurance:**

PricewaterhouseCoopers

**Stakeholder engagement process**

Novo Nordisk has developed mechanisms for assessing materiality, which include reference to external stakeholder concerns by including nonfinancial information in the annual report, as well as developing alternative communication vehicles to maintain its engagement with external stakeholders.

**Motivation for reporting**

For Novo Nordisk, reporting is a part of its overarching commitment to TBL. The purpose of reporting has evolved into an accountability mechanism and invitation for dialogue on social and environmental issues as well as a performance management tool.

**Key tensions and lessons learned**

Although there is general consensus that nonfinancial performance information rightly belongs in the annual report, prioritizing information in the context of an integrated report is a challenge for Novo Nordisk. The nature of the document and its core audience (investors) has presented Novo Nordisk with the challenge of balancing the information and presenting it in an integrated way.

Novo Nordisk is searching for indicators that help it understand the way the triple bottom lines interact and allow the company (and its stakeholders) to assess the impact of Novo Nordisk's business. By better understanding how the triple bottom lines interact, Novo Nordisk will be able to innovate its business model so that it creates value for different stakeholders.


## Seventh Generation

Founded in 1988, Seventh Generation is a small, rapidly growing, private company based in Burlington, Vt. The company offers a complete line of non-toxic household cleaning products, paper goods and trash bags, as well as healthy baby care and feminine hygiene products. It was founded on the premise that business is a powerful means to create a more just and sustainable world. By helping consumers make informed choices about the products they use, and working with suppliers to manufacture products that are safe for the environment, Seventh Generation is seeking to have a positive impact on the Earth.

**Motivation for reporting**

Rather than just accepting reporting as a price of admission for being a values driven company, the goal is to identify how the report itself, and greater transparency generally, can help advance sustainability.

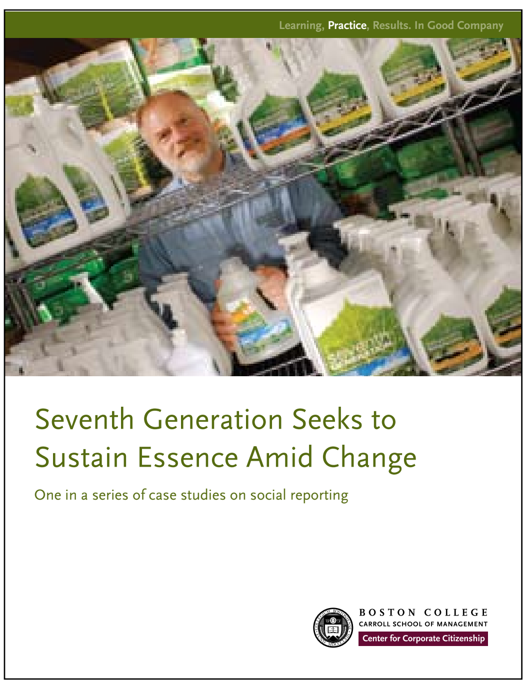
**Type of report**

Sustainability report based on the GRI guidelines

**First reporting year: 2003**

**Number of reports: 5**

**External assurance: No**



**Stakeholder engagement process**

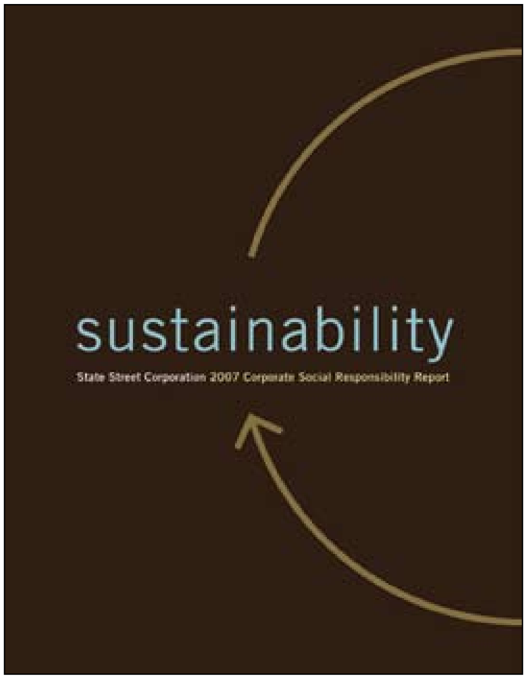
Seventh Generation uses the Ceres stakeholder panel to provide advice on how to improve the report and to challenge its disclosure. Also, in an attempt to encourage stakeholder engagement, Seventh Generation has introduced a contest for the best idea inspired by the 2007 report. The winner will receive $5,000 to implement the idea.

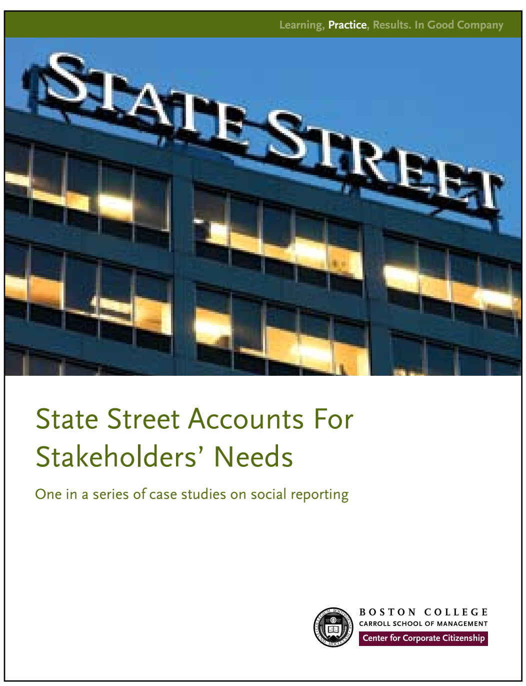
**Key Tensions and Lessons Learned**

The use of GRI guidelines is a noted tension at Seventh Generation. After receiving little stakeholder feedback for the 2005 GRI report, Seventh Generation transitioned to a "GRI Light" version of reporting. To the company, it was not worth the resources to create a report it saw to be almost the same every year. However, the 2007 report returned to fully implementing the GRI guidelines, but this time Seventh Generation approached the process with a goal of exploring how Seventh Generation can use transparency to support its broader goals of systems change.

Moving forward Seventh Generation is faced with the task of identifying ways to leverage the resources required for the process of reporting in order to achieve more internal benefit and reach its broader goal of systems change.

# About the companies in the study




## State Street

With $14 trillion in assets under custody and $1.7 trillion in assets under management, State Street is a global leader in providing financial services to institutional investors. Founded more than 200 years ago and headquartered in Boston, State Street today employs more than 27,000 people worldwide, maintaining operations in 26 countries, including all major investment centers and a growing presence in Asia. State Street has long acknowledged that as a corporate citizen, it needs to be cognizant of its stakeholders. But during the early 2000s and particularly in the post-Enron era State Street, along with others in the financial services industry, has been re-examining what it means for a financial institution to be a good corporate citizen and what stakeholders' expectations of it are. Reflecting its position as an industry leader on the business side, State Street also aims to stay on the forefront of how businesses in its industry face sustainability issues.

**Type of report**

State Street publishes a sustainability report based on the GRI guidelines. It previously published an annual report on philanthropic activities called "World View".

**First reporting year: 2003**

**Number of reports: 5**

**External assurance:**

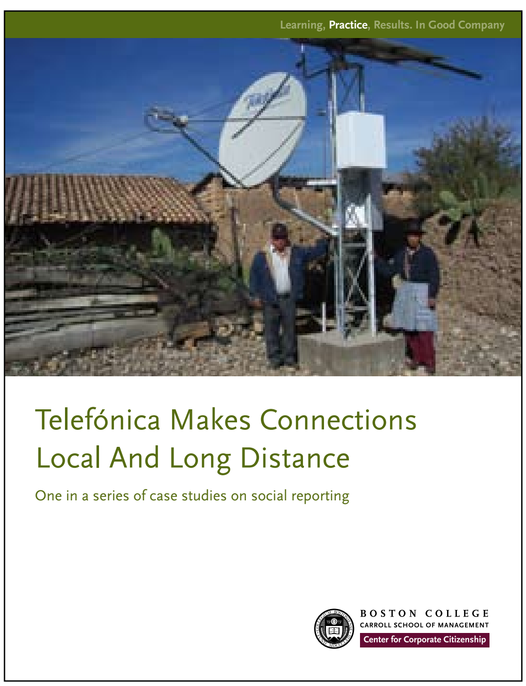
Det Norske Veritas

**Stakeholder engagement process**
State Street is a member of Ceres and works with a Ceres stakeholder panel to obtain feedback on its report and corporate citizenship initiatives.

**Motivation for reporting**
Reporting has been part of a broader strategy to build "grass roots" awareness of what corporate citizenship means for a financial institution like State Street.

**Key Tensions and Lessons Learned**
There is untapped potential for State Street to use reporting as a tool for more effective communications and engagement and to support the strategic direction of its CSR Working Group and Environmental Sustainability Committee. The CSR report has played an important role in helping these committees identify key issues and collect baseline information in a central point. However, as these committees start to create a more strategic approach to addressing social and environmental issues, State Street now has the opportunity to use the CSR report to report on the initiatives and priorities of the internal committees, making it part of the performance management system for these issues.

State Street has been guided by the GRI Guidelines, but has kept an eye on what information is both possible and productive to collect. As experience with reporting has grown and employees become more familiar with the purpose of the report, they have been able to provide more suggestions about new information that could be included. In facing the challenge of streamlining the data collection process, State Street implemented an online platform for data collection. Going forward, however, State Street needs to adopt more robust metrics that support its strategic priorities.




## Telefónica

Telefónica is the one of the world's largest integrated telecommunications firms offering fixed line, mobile, Internet and entertainment services. Its businesses span Europe and Latin America, touching 200 million customers, 233,000 employees, 1.7 million shareholders and 20,000 suppliers. Telefónica was established in 1924 as the state-owned telecommunications provider in Spain and underwent considerable change when it was privatized in 1994. Further changes came in 2006, when Telefónica merged its fixed line and mobile businesses into one company. As of December 2007, more than 60 percent of Telefónica's business was outside Europe. In 2007, Telefónica started expanding its presence in Europe through the acquisition of the British mobile operator, O2, which brought operations in the United Kingdom and Eastern Europe. The corporate responsibility team at Telefónica was established for the purpose of managing and improving corporate reputation. This committee, the only one of its kind in a Spanish company, is a consultative control committee comprised of four independent directors, who bring experience from managing corporate responsibility in different industries. The committee has an important role in supervising the policies and projects associated with corporate responsibility in the Telefónica Group.

### Motivation for reporting

Reporting serves as a reputation management tool for Telefónica, demonstrating the company's contribution to society. However, over the course of time the emphasis of reporting is shifting from reputation management to performance management.

**Type of report**
Commencing in 2007, Telefónica began integrating its corporate responsibility (CR) report into the company's annual report (for the 2006 year). Divided into two sections, the annual report communicates the status of Telefónica's "body," the financial results; and its "soul," its CR results.

**Number of reports**
Telefónica emphasizes the need for country-level CR managers to collect their own performance information and prepare country-specific reports. In 2004, four countries produced separate CR reports (Argentina, Brazil, Chile and Peru) and by 2006, it had grown to 10 countries, covering all of Telefónica's Latin American markets. In Europe, Telefónica has also been applying its group-wide policy to companies acquired through the acquisition of O2. In 2007, Germany, Ireland, the United Kingdom and the Czech Republic all produced country-level CR reports.

**First year of reporting: 2003**

**External assurance:**

Ernst & Young

**Stakeholder engagement process**
Telefónica has developed its own process for stakeholder engagement which it applies in all geographic regions. Stakeholder engagement is done as part of Telefónica's CR management process, but the lessons learned through the engagement also inform the issues on which Telefónica reports. In each country, Telefónica convenes a session of a group of key stakeholders representing consumer groups, such as people with disabilities, civil society organizations focused on environmental or social issues, and other parties relevant to the location of the focus group.

**Key tensions and lessons learned**
Telefónica faces challenges with ensuring accuracy and consistency across its reports because the capacity of local CR managers varies, as does the information available to measure CR performance. To ensure local CR managers understand the information required by different performance indicators, Telefónica has established regional training sessions to build common understanding. The audit process also helps to educate country-level managers on the information that different indicators require and how to improve the accuracy of the data collected. However, limitations remain where data is collected differently across the Telefónica group, whether for internal or external reasons.

Despite the emphasis that Telefónica has placed on using corporate citizenship to improve its reputation with stakeholders, it is still identifying ways to use the reports as effective engagement tools. For some audiences, described as the "core CSR crowd," Telefónica has been able to use the reports to some advantage. But in terms of a broader range of external stakeholders, Telefónica is exploring ways to communicate more effectively. Telefónica also needs to find ways to use the reports more effectively among internal stakeholders.

# Acknowledgments

This study was made possible thanks to the support of the companies featured in the case studies. Thanks must go to the many employees at these companies who participated in the interviews and to the companies themselves for their financial support. In addition, key individuals within these companies provided time in assisting with coordinating interviews and providing valuable feedback. Special thanks goes to Elaine Salewske, Baxter International; Monica Oberkofler and Melissa Swanson, Gap Inc; Susanne Stormer, Novo Nordisk; Gregor Barnum, Seventh Generation; Rick Pearl and Rachel Criscuollo, State Street Corporation; and David de san Benito Torre, Telefónica.

Thanks must also go to a number of thought leaders and practitioners who provided their insights during the course of the project: Katie Fry-Hester, SustainAbility; Adam Kanzer, Domini Social Investments; Meg Fricke and Kirsty Jennings, Ernst & Young Australia; Scott McAusland and Bastian Buck, Global Reporting Initiative; Richard Boele, Banarra Sustainability Assurance and Advice; Brooke Barton and Andrea Moffat, Ceres; Chris Jochnick, Oxfam America Private Sector Team; and James Gifford, U.N. Principles for Responsible Investment.

Valuable input into the preparation of the case studies and in developing the findings of this report was also gratefully received from the Center's research team and other colleagues from the Boston College Center for Corporate Citizenship, with particular thanks to those who were part of the internal review committee: Bradley Googins, Chris Pinney, Philip Mirvis and Peggy Connolly, as well as to Tim Wilson and Sharon Sabin for their editorial and design assistance.

Finally the project would not have been possible without the contributions of Seema Bharwani and Valerie LaVoie, co-authors of the case studies, and the thought leadership of David Wood, director of the Institute for Responsible Investment, in conceiving the original idea for the project and providing considerable input into each of the case studies and this final report.

At the end of the day, improving corporate citizenship performance is not about having a good social report. Instead, a social report must reflect what is going on within a company.

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