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"Corporate Reporting – Quo Vadis" Minutes

1 October 2014, in Zurich

Öbu, engageability and SGS were pleased to welcome more than 60 participants to the reporting event on October 1st in Zurich. The conference was aiming to provide an overview of latest reporting developments and trends. Furthermore, various methods on how to run and display materiality assessments as well as the future value of integrated reporting were discussed.

I. Introducing thoughts by Arthur Braunschweig

Arthur Braunschweig (E2 Management Consulting) indicated that Swiss companies mainly focus on Global Reporting Initiative (GRI) and other frameworks such as IIRC (International Integrated Reporting Committee) and SABS (Sustainability Accounting Standards Board) are less popular. As kick-off to the conference, Arthur Braunschweig shared following thoughts:

1. **Risk of business failure**
   Companies can either grow or collapse through reporting, e.g. through stranded assets or mainstream reporting.
2. **Regulation**
   Should we consider financial oriented frameworks like IIRC and SASB as minimal standard? Or should we rather focus on more comprehensive frameworks like GRI?
3. **Quoted vs. not quoted**
   Which standard is for which company? Many companies are not quoted, so to whom should they report to?
4. **European and national requirements**
   How effective are European/national regulations? Four European countries request the disclosure of environmental, social, and governance (ESG) performance (e.g. the Grenelle Acts in France) and the Council of the European Union recently adopted the Directive on disclosure of non-financial and diversity information by large companies and groups addressing ESG issues.
5. **Communication and understanding**
   European and American companies have different views on what it requires to be a sustainable company. Hence, the used frameworks must be adapted to the needs of the company, and not the other way around.

II. Keynote Speech of Peter Bakker

According to Peter Bakker, president & CEO of the World Business Council for Sustainable Development (WBCSD) and vice-chairman of IIRC, reporting is an essential step, but the real game is: How can we ensure that more sustainable companies become more successful? There are no incentives so far; hence, we need to change the system.

How to move from the converted to action by all

→ Acting by all can be achieved by <u>changing valuations</u>.
→ Changing valuations can be achieved by <u>changing reporting/disclosures</u>.
→ Changing reporting will reflect <u>changing decision making of business.</u>

Steps to get there

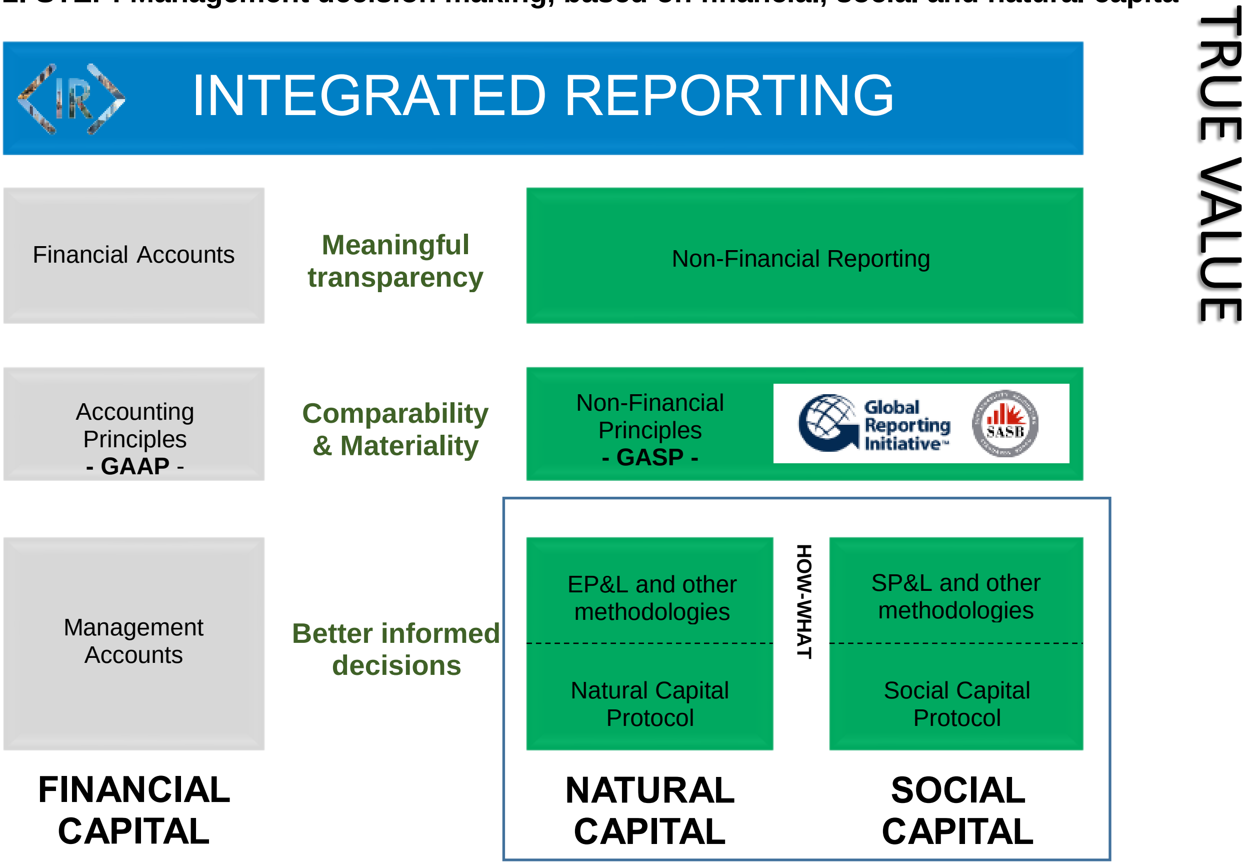
1. Step: Change risk management
2. Step: Management decision making

3. Step: Change Reporting
4. Step: Define valuations

1. STEP: Risk Management

Doing business in an ever more complex world with many societal challenges (literature tipp: „Living Planet Report 2014", WWF) and the increasing public attention, bears many risks for companies. According to Peter Bakker a radical transparency is the only solution. Built upon the Millennium Development Goals a new set of Sustainable Development Goals (SDGs) has been launched and the WBCSD is intending to build a new reporting framework behind each of the targets. All listed companies should report against the SDGs and scale up through innovation for solutions, collaboration and improvement of business case.

2. STEP: Management decision making, based on financial, social and natural capita



Financial, social and natural capital may sound like the triple bottom line (TBL) but the triple bottom line got bankrupt. The only way forward is the integrated bottom line. For this integrated performance management (likewise called true costing, true value) also non-financial items need to be monetised. WBCSD is currently working on a new protocol companies can use to go through these steps.

3. STEP: Change Reporting

We should not talk about corporate reporting; such as GRI, IIRC and other frameworks do. Instead, we should be concerned about the performance measurement. Companies do not like to report on things they do not understand. Therefore, before reporting, we should understand how to measure performance and impact.

4. STEP: Define Valuations

Change of capital market – through investors and insurance companies

The capital market evaluation will change rapidly. Within the next six years asset managers will base every investment decision on a more holistic picture of companies. In addition, insurance companies are aware of the rise of risks and represent massive investors as well.

Based on step 3, companies need to change the management accounting, before reporting accounting. In this phase, it is important that companies first define and handle its material issues, and to report on them afterwards.

Future projections according to Peter Bakker

In 5 years: Integrated reporting will be mainstream. Companies should get on board asap.
In 10 years: Integrated reporting will be mandatory with a rule-based Standard to ensure

- comparability between companies
- clear definition of materiality
- clear definition of relevance

"If something is inevitable, learn to love it."
(Peter Bakker)

In the meantime, the role of sustainability managers should remain in educating its business to make better decisions. Reporting is good, but we need the operators to take good decisions.

III. Panel discussions about latest trends

The panellists Peter Bakker, Daniel Rüfenacht (Vice President Corporate Sustainability, SGS), Rashila Kerai (Sustainability Development Project Manager, Holcim) and Daniel Wild (Head of Sustainability Investing R&D, RobecoSAM) joint the panel session on reporting developments.

Link financial and sustainability performance

While companies have different systems and terminologies in place – e.g. the environmental and social profit and loss calculation at Holcim or the Green Book at SGS, which expresses costs of intangible outcomes in percentages of the revenue – a trend towards monetised impact can be previewed. This helps the company internally to "speak the same language" between the financial and sustainability department, to take better decisions and to present a more holistic business story, incl. financial and sustainability story. Daniel Wild from RobecoSAM supports this trend from the asset management company-perspective. RobecoSAM wants to know the link between intangible factors and financial performance with concrete examples, to ensure RobecoSAM is taking "better decisions" as well.

Risk vs. opportunity perspective

Growth and tackling societal issues is not a contradiction. Insurance companies have a lot of money to invest, meaning the opportunity side becomes more important. The New Climate Economy Report for instance shows massive opportunities. Companies also try to move from risk to opportunities, e.g. via the World Sustainability Development Goals.

Change of system through leadership?

There is an interesting phenomenon, asking for more sustainable leadership like Paul Polman (CEO, Unilever). In Peter Bakker's view, we depend too much on leaders. Instead, we need to get the leading companies to go out, to tell their stories and to inspire more companies to do so → Only this will change the system.

Focus on materiality

Before starting the panel session on materiality, Barbara Dubach, founder and CEO of engageability, presented the outcomes of engageability's recent study on Materiality 360, reaching from types of materiality disclosure and stakeholder inclusiveness in the four phases of the process, to different methods of capturing stakeholder perspectives.

Key questions

- What is material for my company or organization?
- What type of stakeholder engagement could I try?
- What are the trends in my industry and region?
  Tip: To find out more about industry trends, companies can look into the framework of SASB, which indicates around 10 material indicators per sector. So far, four sectors have been finalized, incl. Health Care, Financials, Technology & Communications, and Non-Renewable Resources. More sectors will follow shortly.

Panel discussion on materiality

In the panel session, Dominique Slappnig (Head of Corporate Communications and Investor Relations, SIKA) and Adrienne Williams (Senior Consultant, ABB) introduced the audience to their materiality issues and targets. Interestingly, ABB pointed out that one of the reasons to launch a massive stakeholder engagement process was to raise awareness by starting discussions. Once material issues and targets are identified SIKA emphasised also on the importance of rolling them out over the entire group and to continuously review them.

IV. Some more tips from panellists

Related to reporting:

- Take a reporting framework what is out there and try to make it work for you.
- Report along the entire supply chain, but make sure you have an answer to external questions related to difficult topics.
- Consider to use the world "emerging issues" instead of "non-financial" as latter would mean "non-important" in the financial market. Instead, "emerging issues" would indicate that it is "not yet financial".
- In most cases, it is not sufficient to report on material issues only. Companies use the report also for an internal audience, with lots of other targets that are relevant.

Related to materiality

- Materiality discussions are not for reporting but for your strategy.
- If stakeholder views differ from management views, it could be useful to focus on issues where the company has a certain degree of control.
- The materiality assessment costs a lot but it is worth doing it.

For more information, please contact info@engageability.ch.