Developments in Corporate Responsibility from a European perspective

RIETI-BBL, Tokyo, 12 May 2006
The KPMG International Survey of Corporate Responsibility Reporting 2005

- The majority of the 250 biggest companies in the world issued separate reports on Corporate Responsibility: 52 percent compared to 45 percent in 2002.

- Corporate Responsibility reporting has changed from purely environmental reporting to sustainability (social, environmental and economic reporting).

- At national level, on average 33% companies issued separate reports. The two top countries are Japan (80%) and the United Kingdom (71%). Highest increases are in Italy, Spain, Canada and France.

- Most remarkable is the financial sector, which shows more than a two-fold increase in reporting since 2002.
Corporate Responsibility (CR)
Not to be confused with philanthropy!

“The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life”

World Business Council for Sustainable Development, 2004

Synonyms
Corporate Social Responsibility, Sustainability, Triple Bottom Line, People-Planet- Profit
Most active regions for Corporate Responsibility

- Western Europe
- South Africa
- Brazil
- Chile
- Japan
- S-Korea
- Australia
- North America

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Agenda

- Facts around CR
  - The context surrounding the facts
  - The response of companies
  - Value creation of CR
  - Current development
  - Conclusions
CR facts The KPMG International Survey of Corporate Responsibility Reporting 2005

- Carried out every three years since 1993.
- Most comprehensive global survey of corporate responsibility reporting.
- Over 1600 corporations worldwide; response rate 98%.
- Cooperation between KPMG Global Sustainability Services and University of Amsterdam: Amsterdam Graduate Business School.

- Two parallel studies:
  - The Global top 250 Corporations of Fortune 500 (G250)
  - Top 100 companies in 16 countries (N100)
CR facts
Corporate Responsibility Reporting on the rise

Top 100 companies in 10-16 countries
Global (Fortune) 250 companies

% of companies with a separate CR report


N100 G250
The nature of the reports has changed dramatically.
CR facts
All sectors on the rise (Top 100 companies in 16 countries)
CR facts
Developments per country (Top 100 companies in 16 countries)
CR facts
The top issues in CR reports

Environment
- Climate change: 85%

Social issues
- Diversity: 68%
- Equal Opportunities: 61%
- Human Rights: 51%
- Collective bargaining: 33%
- Child and forced labor: 30%
- Freedom of association: 27%

Working conditions
- Health and Safety: 72%
- Training: 72%
- Working conditions: 62%
- Employee satisfaction: 32%

Community Involvement
- School/education programs: 65%
- Employee volunteering: 58%
- Health programs: 40%
- HIV/AIDS: 29%
- Water projects: 11%

Philanthropy
- Philanthropy: 74%
- Foundations: 47%

Economic issues
- Basic information from financial report: 61%
- Impact of economic activities: 25%
- Tax issues: 16%
- Fair trade: 6%
- Fair competition: 6%
CR facts

Emerging issues

**Stakeholder engagement**
- 57% mention key stakeholders
- 39% have structured stakeholder dialogue
- 32% ask for specific feedback on their CR report from stakeholders
- 8% respond publicly to stakeholder feedback
- 6% measures impact of CR report via stakeholder dialogue

**Supply chain management**
- 80% mention attention for CR in their supply chain
- 70% of the companies require a supplier declaration
- 16% carry out supply audits
- Climate Change: CO2 trading
- 85% discuss impact of Climate change

**Supply chain management**
- 67% report on own greenhouse gas emissions
- 24% investigate consequences of CO2 trading

**Corporate Governance**
- 67% mention code of conduct/code of ethics
- 61% has section about Corporate Governance
- 53% describes link between CR and Corporate Governance
- 29% mention whistleblower/ombudsman/other independent function
- 18% mention codes related to corruption and bribery
- 6% mention link between Sarbanes-Oxley and CR
Agenda

Facts around CR

The context surrounding the facts

The response of companies

Value creation of CR

Current development

Conclusions
Reflection: the context surrounding the facts
What has happened in the society?

Strong focus on the responsibilities of companies towards:
- all its *stakeholder* groups
- the *environment*
- the *society* in which it operates

Public *expectations about the role of multinational companies in society are high* but... *trust in business is diminishing*

Leading to a call for better *corporate governance, transparency and accountability*
- *Growing number of NGOs* closely *watch* corporations globally
- Pressures from *governmental* organisations
- As a result Companies are increasingly *vulnerable* to CR risks
Public expectations (1)
Large enterprises should operate in such a manner that they and their products do not cause harm to the environment

Source: Globescan 2003
Public expectations (2)
Large enterprises should help solve social problems such as crime, poverty and lack of education

Public opinion

Source: Globescan 2003
Trust in global companies is relatively low

Public opinion: average of 20 countries surveyed

- Global corporations
- Labour unions
- Press & media
- Large domestic companies
- Government
- UN
- NGO's

Source: globescan: 2004
Growing number of NGO’s watch companies

Non Governmental Organisations

Number NGOs

year

Local /Regional
- Environment
- Nature
- Consumers
- Universities

Global
- Human Rights
- Environment
- Fair Trade

Number
- 1960
- 1970
- 1980
- 1990
- 2000

NGOs


0 5000 10000 15000 20000 25000 30000 35000 40000 45000
Pressures from governmental organizations

**United Nations**
- UN Millenium Development Goals
- Global Compact
- Financial Sector Initiatives
- ILO

**European Union**
- several initiatives in C(S)R
- new European Directives (Environment)
- EU Accounts Modernization Directive

**OECD**
- Guidelines for Multinational Enterprises
Social Risks ... some examples

- War zones
- Working conditions
- Child labour
- HIV/AIDS
- Landownership
- Human Rights
- Illegal logging
- Labor issues
Environmental Risks
example: The Greenpeace Campaign Against HP
Agenda

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The response of companies: managing risks and creating value

**Corporation**

Strategy and management

**International codes and standards**

**Analysis**

**Stakeholders**

**Engagement**

**Transparency Accountability**

**Communication**

**Annual CR Report**

**ASSURANCE**

Integration into the business activities
## Relevance of Standards

<table>
<thead>
<tr>
<th>Name</th>
<th>Key issues addressed</th>
<th>Business Relevance</th>
</tr>
</thead>
</table>
| OECD Guidelines for MNEs         | Principle normative framework for MNCs  
Human rights; environment; ILO core labour standards; anti-corruption; taxation; consumer protection, etc.                                                                                                 | Voluntary; possible frame of reference for a CR Code of Conduct  
Risk of reputation damage: assumed violations can be reported by anyone to Ministry of Economic Affairs                                                                                                           |
| UN Global Compact                | 10 principles derived from Universal Declaration of Human Rights, ILO, and Rio Principles                                                                                                                                 | Voluntary, membership-based  
Fundamental value of 10 principles regardless of membership  
Weak accounting/ compliance monitoring requirements                                                                                                                                                    |
| GRI                              | Set of sustainability indicators for reporting on CR performance                                                                                                                                                      | Voluntary, non-proprietary; helps structuring a CR report; No guidance on materiality                                                                                                                                |
| AA1000 Standard                  | Scope of responsibility and materiality determined through rigorous process of stakeholder engagement; focus on underlying management systems                                                                           | Voluntary; non-proprietary; Framework for materiality check through stakeholder engagement  
No focus on accuracy of information                                                                                                                                                                             |
How companies determine what is important.
The materiality test (AccountAbility)

Figure 1
Five-Part Materiality Test
Agenda

Facts around CR

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Current development

Conclusions
What do companies see as value creation by CR?

% of companies that mention this specific driver for CR

- Innovation and learning: 52%
- Risk management: 48%
- Employee motivation: 44%
- Access to capital: 41%
- Reputation and brand: 39%
- Market position: 22%
- Supplier relations: 12%
- Relationship with authorities: 10%
- Cost saving: 10%
Innovation and learning example: Royal Philips Electronics case

**Sectors:** consumer electronics, lighting, semi-conductors, medical systems, domestic appliances

**Message:** "Sustainability … creating value"

**Environmental communication**
- Internet: limited (report in HTML)
- Printed and online advertisements: limited
- TV commercials: limited

**External recognition**
- DJSI World: market sector leader 2004/2005
- Global100 listed: yes (2006)
- FTSE4good listed: yes (2006)
- For Product: BEC award 2005

**Monitoring performance (KPI)**
- Green flagships, these products have measurably improved environmental performance compared to predecessors or closest competitors (total number: 160)

**Green Flagships:** products with proven better environmental performance

**AWARD:**
Philips received two Hong Kong Eco-Products Awards from the Business Environment Council (BEC) in June 2005.

**News**

*March 6, 2006*

**Turnover of Philips' Green Flagship products doubles to 2 billion Euros**

**Green Flagship products**
Green Flagship products provide concrete examples of how Philips improves the quality of life and tackles the issues — such as global warming — that resonate with consumers worldwide. Green Flagship products must be proven to offer substantial better environmental performance than their predecessors or closest commercial competitors on energy consumption, packaging, hazardous substances, weight, recycling & disposal and lifetime reliability. These products now account for a turnover of 2 billion Euros, double that of 2004.

Source: www.philips.com
What do companies see as value creation by CR?

% of companies that mention this specific driver for CR

- Innovation and learning
- Risk management
- Employee motivation
- Access to capital
- Reputation and brand
- Market position
- Supplier relations
- Relationship authorities
- Cost saving

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Percentage of students that would **not** apply for a job when is company does not behave responsible

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>60</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>50</td>
</tr>
<tr>
<td>Latin America</td>
<td>40</td>
</tr>
<tr>
<td>Western Europe</td>
<td>30</td>
</tr>
<tr>
<td>Oceania</td>
<td>20</td>
</tr>
<tr>
<td>North America</td>
<td>10</td>
</tr>
</tbody>
</table>
What do companies see as value creation by CR?

% of companies that mention this specific driver for CR

- Innovation and learning: 50%
- Risk management: 40%
- Employee motivation: 45%
- Access to capital: 55%
- Reputation and brand: 30%
- Market position: 20%
- Supplier relations: 15%
- Relationship authorities: 10%
- Cost saving: 5%
Access to capital
Professional managed Investments based on ethical, social or environmental considerations

Globally 6% of all professionally managed assets, largely in equity

Fourfold growth in sustainable investments in one decade

USD 2161 billion
USD 447 billion
USD 3 billion
USD 13 billion

350 TRILLION YEN
Will social and/or environmental corporate performance indicators be integrated as investment criteria?

Survey (investment managers)

<table>
<thead>
<tr>
<th>Region</th>
<th>3-5 years</th>
<th>6-10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>US</td>
<td>10%</td>
<td>40%</td>
</tr>
<tr>
<td>Europe</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Canada</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>Australia</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Asia</td>
<td>20%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Source: Mercer Investment Consulting, 2005
Access to capital
Role of Sustainable Indices: DJSI and FTSE4Good Index

Corporations are eager to be ranked high:
- Increases profile in the financial market
- Shows leadership
- Upward pressure on market (stock) value

DJSI 2005

<table>
<thead>
<tr>
<th>Name</th>
<th>Market Sector</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toyota Motor</td>
<td>Automobiles</td>
<td>Japan</td>
</tr>
<tr>
<td>Westpac Banking Corp.</td>
<td>Banks</td>
<td>Australia</td>
</tr>
<tr>
<td>Alcan Inc.</td>
<td>Basic Resources</td>
<td>Canada</td>
</tr>
<tr>
<td>DSM NV</td>
<td>Chemicals</td>
<td>Netherlands</td>
</tr>
<tr>
<td>AMEC plc</td>
<td>Construction</td>
<td>UK</td>
</tr>
<tr>
<td>Koninklijke (Royal) Philips</td>
<td>Cyclical Goods &amp; Services</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Electronics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statoil</td>
<td>Energy</td>
<td>Norway</td>
</tr>
<tr>
<td>British Land Plc</td>
<td>Financial Services</td>
<td>UK</td>
</tr>
<tr>
<td>Unilever</td>
<td>Food &amp; Beverage</td>
<td>UK/ NL</td>
</tr>
<tr>
<td>Novozymes A/S</td>
<td>Healthcare</td>
<td>Denmark</td>
</tr>
<tr>
<td>3M Company</td>
<td>Industrial Goods &amp; Services</td>
<td>USA</td>
</tr>
<tr>
<td>Swiss Reinsurance</td>
<td>Insurance</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Pearson PLC</td>
<td>Media</td>
<td>UK</td>
</tr>
<tr>
<td>Procter &amp; Gamble Co.</td>
<td>Non-cyclical Goods &amp; Services</td>
<td>USA</td>
</tr>
<tr>
<td>Marks &amp; Spencer PLC</td>
<td>Retail</td>
<td>UK</td>
</tr>
<tr>
<td>Intel Corp.</td>
<td>Technology</td>
<td>USA</td>
</tr>
<tr>
<td>BT Group Plc</td>
<td>Telecommunications</td>
<td>UK</td>
</tr>
<tr>
<td>Severn Trent Plc</td>
<td>Utilities</td>
<td>UK</td>
</tr>
</tbody>
</table>

For inclusion is performance required on criteria such as Corporate Governance, environmental management/innovation, human capital, labor practices, human rights and stakeholder engagement.
### Access to capital
dedicated Socially Responsible Investment (SRI) funds

Total: 10 trillion Yen Assets under management

<table>
<thead>
<tr>
<th>Assets under management of SRI funds (USD billion)</th>
<th>No. of SRI funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>284</td>
</tr>
<tr>
<td>USA</td>
<td>112</td>
</tr>
<tr>
<td>Australia</td>
<td>50</td>
</tr>
<tr>
<td>Asia</td>
<td>17</td>
</tr>
</tbody>
</table>

- USD 76 billion under management worldwide (10 trillion Yen)
  (2% of total sustainable AUM, remainder in medium-sized and institutional investors)
- 463 SRI funds worldwide
- SRI fund managers develop expertise and alert traditional colleagues
- Most SRI funds are in Europe
What do companies see as value creation by CR?

% of companies that mention this specific driver for CR

- Innovation and learning
- Risk management
- Employee motivation
- Access to capital
- Reputation and brand
- Market position
- Supplier relations
- Relationship authorities
- Cost saving

0 10 20 30 40 50 60
Increased brand value
Toyota case

**Sectors**: automotive

**Message**: “Zeronize (emissions) and maximize”

**Environmental communication**
- Internet: numerous sites
- Printed and online advertisements: a lot
- TV commercials: limited

**External recognition**
- DJSI World: market sector leader 2004/2005
- Global100 listed: yes (2006)
- FTSE4good listed: yes (2006)
- For Product (Prius): U.S. EPA ENERGY STAR Sustained Excellence 2006

**Product marketing**

**Toyota Prius**
- avoids London congestion charge

And it's getting a lot of attention from consumers. Last month, a record 5,230 Priuses sold in the US, and the car is on track to sell some 45,000 this year. Toyota recently announced plans to increase production to help alleviate a backlog. The company believes it could sell twice as many if only enough were available, Toyota Motor Sales USA Inc. spokesman Irv Miller said.

By Greg Schneider - Washington Post Staff Writer - Monday, August 23, 2004; Page A01
Agenda

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CR implementation in business is a challenge for most European companies

With courtesy to Shell
Challenges in managing CR

- Loss of knowledge and experience through frequent organisational changes in companies
- Long communication channels in complex organisations
- Lack of information and experience with management of non-financial (social) issues
- Market pressures: demand for quick decision making
- More decentralised decision making by information technology
- Long supply chains difficult to control
- Boundaries of companies are blurred: mergers / alliances / business networks
- Sourcing
- Foreign Investments activities to China, India, S-America
- Cultural Differences
Regional differences in CR and focal areas

<table>
<thead>
<tr>
<th>North America</th>
<th>Japan/Korea</th>
<th>Western Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder focussed (Anglo-Saxon-model)</td>
<td>Harmony</td>
<td>Stakeholder focussed (Rhineland-model)</td>
</tr>
<tr>
<td>Focus on (strategic corporate philanthropy / giving (foundations)</td>
<td>“San-pou- yoshi”</td>
<td>More EU-directives on CR/legislation</td>
</tr>
<tr>
<td>Community involvement</td>
<td>Supplier/Customer/ Product focused</td>
<td>Integration CR in core business processes: CSO function</td>
</tr>
<tr>
<td>Employee volunteering</td>
<td>Environment focused</td>
<td>- R&amp;D, purchasing, M&amp;S, logistics, IR etc.</td>
</tr>
<tr>
<td>Focus on corporate governance-dimension of CR</td>
<td>Linkage CR and product branding</td>
<td>Focus on social topics (e.g. labour conditions, human rights and community)</td>
</tr>
<tr>
<td>Compliance driven</td>
<td>Shift starting from environment to social topics</td>
<td>Linkage CR and corporate image and risk management</td>
</tr>
<tr>
<td>Influence Sarbanes Oxley</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Shareholder focussed (Anglo-Saxon-model) in North America contrasts with Stakeholder focussed (Rhineland-model) in Japan/Korea. Western Europe sees an increased focus on EU-directives and more integration of CR in core business processes like R&D, purchasing, M&S, logistics, and IR.
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Conclusions

- CR (Sustainability) and CR reporting has become mainstream in multinational corporations driven by economic motives.
- CR stimulates innovative thinking in companies and helps to open new markets.
- Through increasing supply chain pressures also smaller companies (SMEs) will be stimulated to adopt CR practices.
- The interest of the Financial Sector and investors in CR and CR performance of companies has increased dramatically the last few years putting more emphasis on the business case from the financial perspective.
- Embedding of CR (Sustainability) in its strategy, operations and communication is for multinational private companies vital for success in a globalizing environment.
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