



KPMG GLOBAL SUSTAINABILITY SERVICES

Developments in Corporate Responsibility from a European perspective

RIETI-BBL, Tokyo, 12 May 2006

ADVISORY



KPMG GLOBAL SUSTAINABILITY SERVICES

KPMG International Survey of Corporate Responsibility Reporting 2005

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UNIVERSITEIT VAN AMSTERDAM

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



Agenda

Facts around CR

The context surrounding the facts

The response of companies

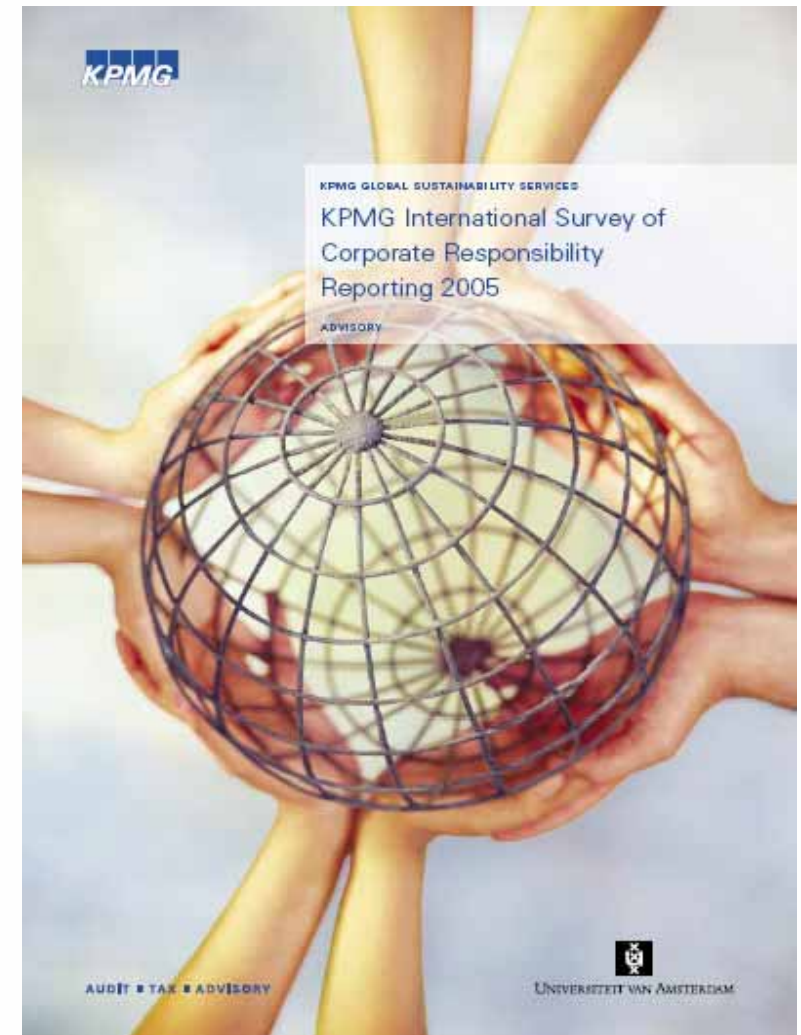
Value creation of CR

Current development

Conclusions

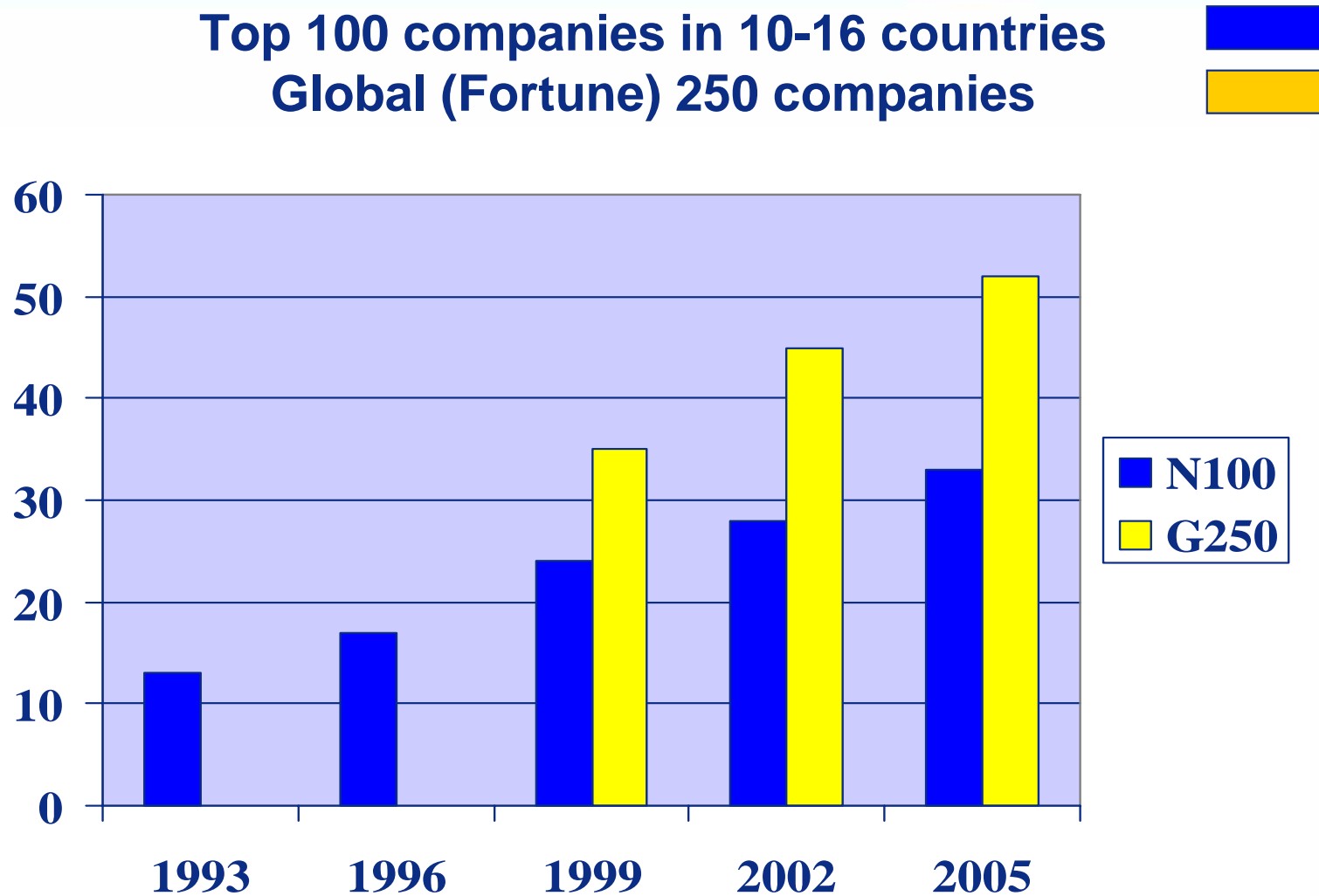
CR facts The KPMG International Survey of Corporate Responsibility Reporting 2005

- 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)



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

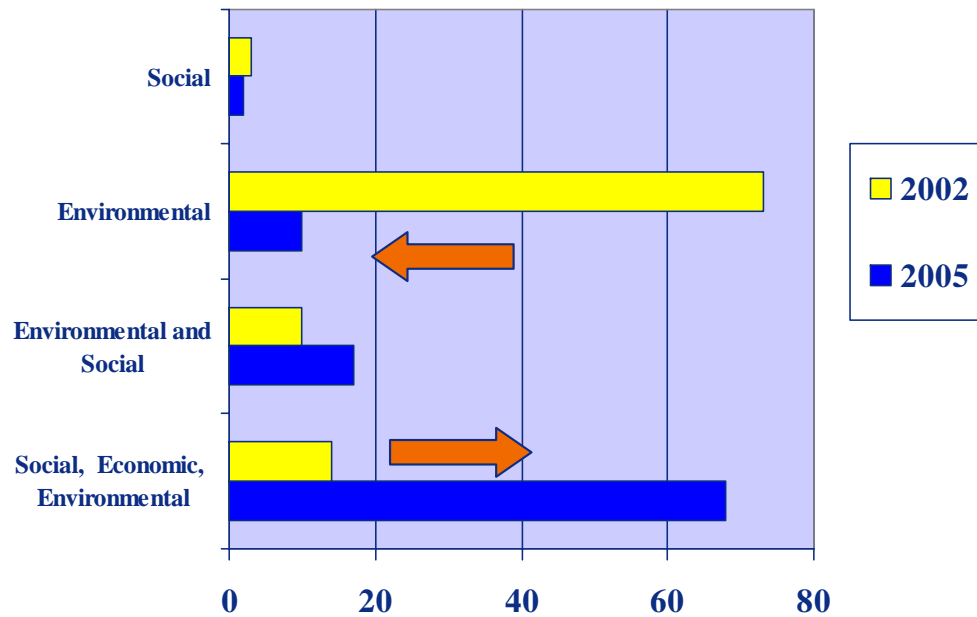
% of companies with
a separate CR report



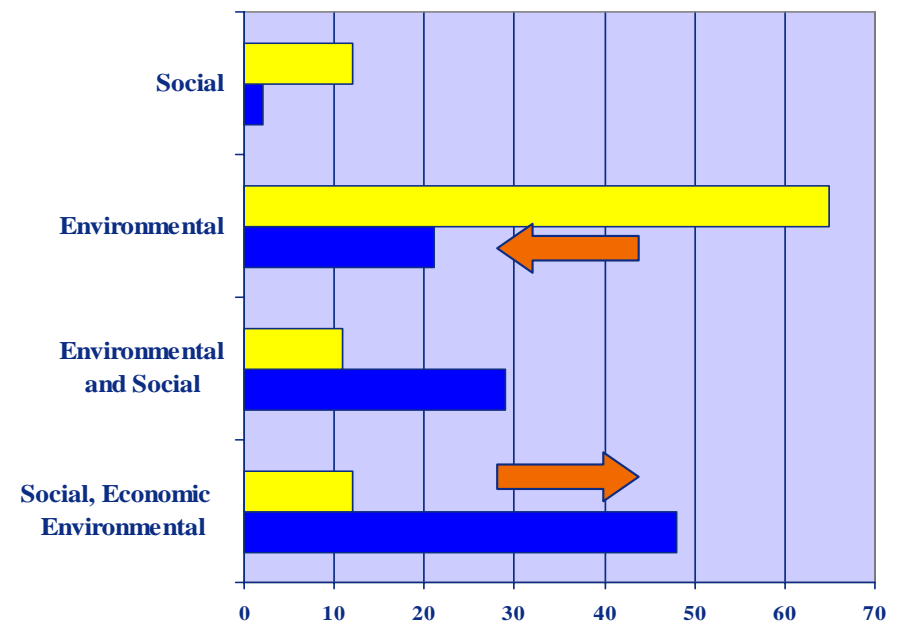
CR facts

The nature of the reports has changed dramatically

Global 250 companies



Top 100 companies in 16 countries

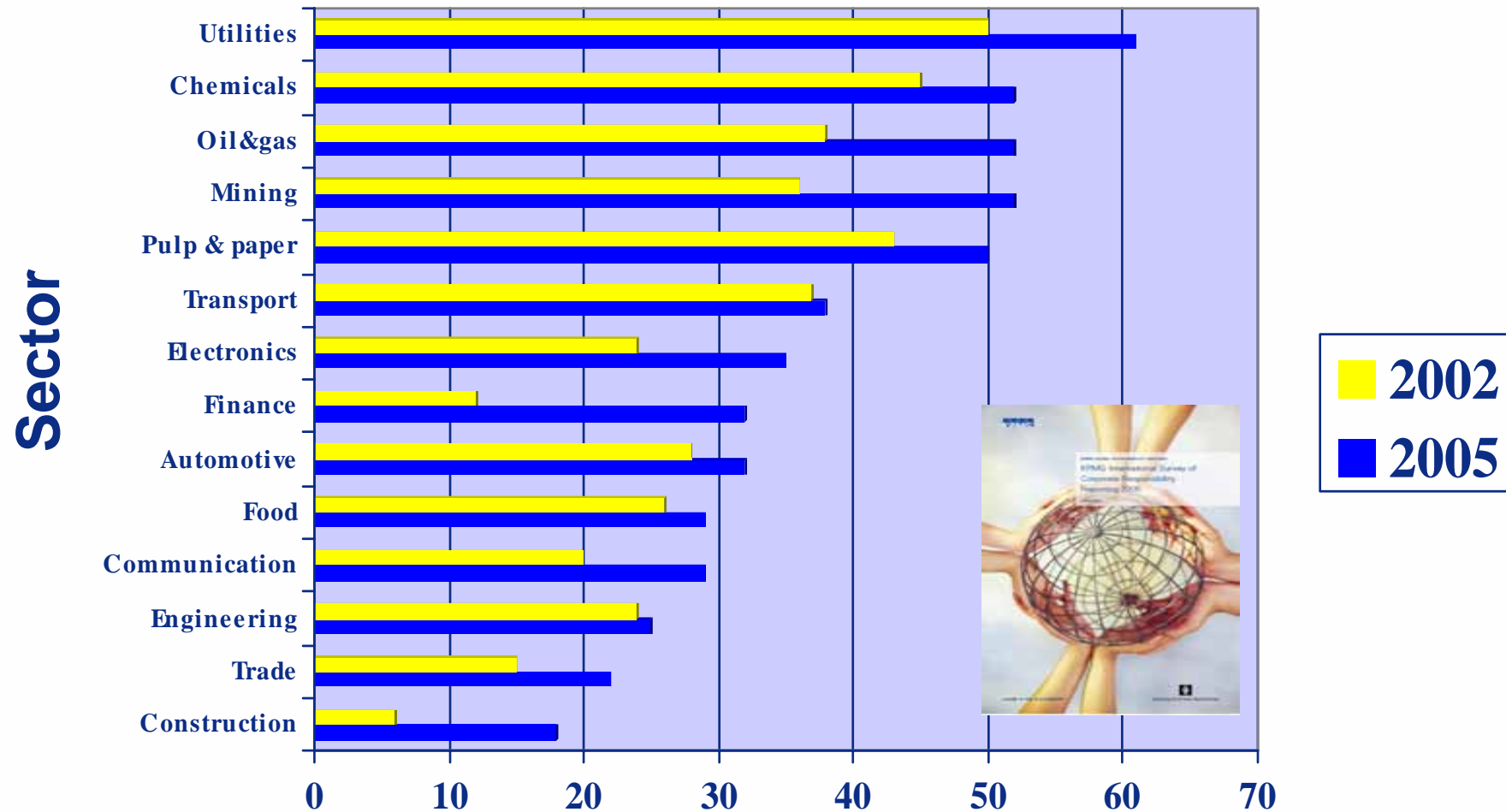


% of CR reports per category

CR facts

All sectors on the rise (Top 100 companies in 16 countries)

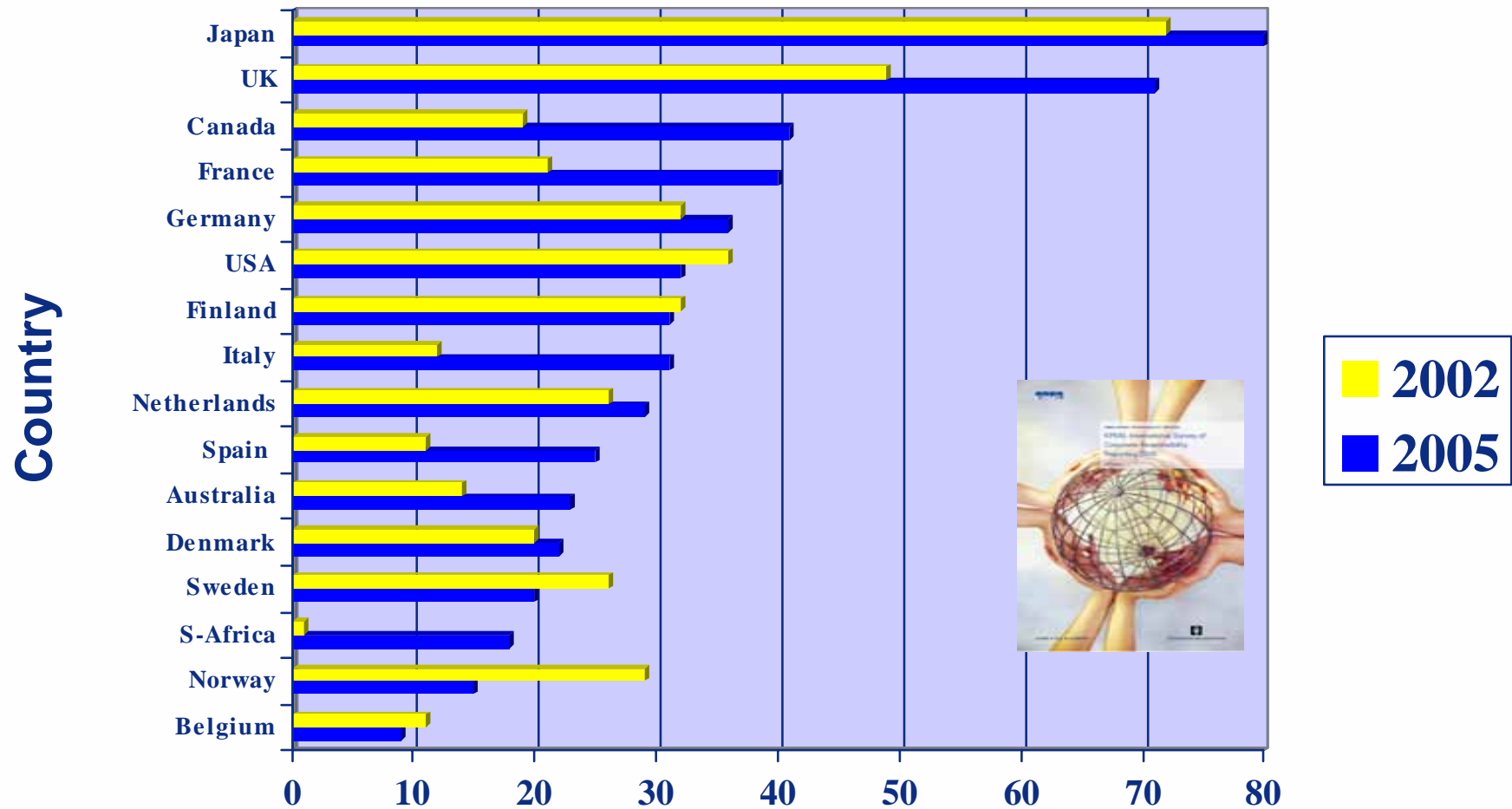
% of companies in sector with separate CR report



CR facts

Developments per country (Top 100 companies in 16 countries)

% of top 100 companies per country with separate CR report



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% responds 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

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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

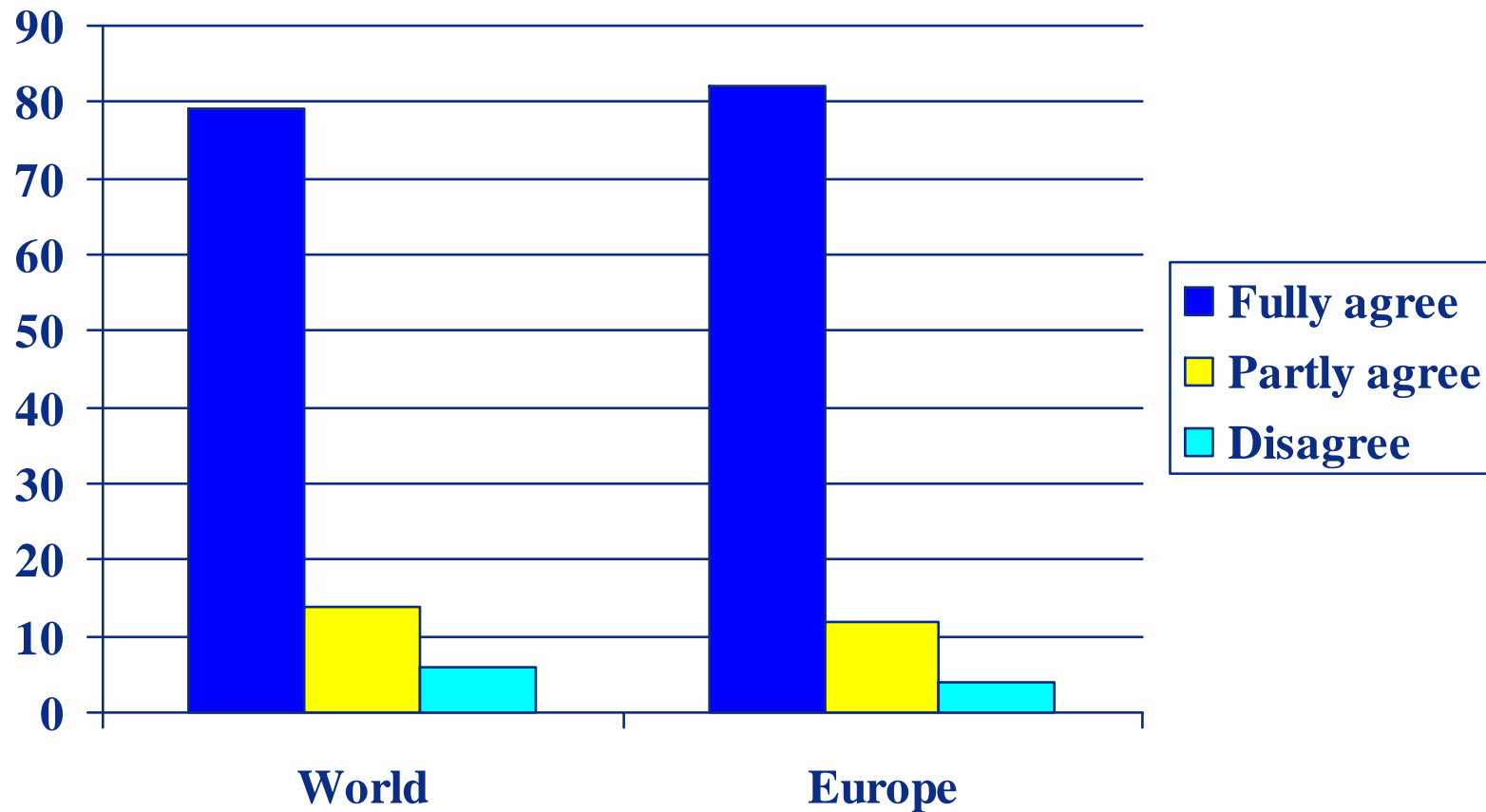
Leading to a call for better corporate governance, transparency and accountability

- 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

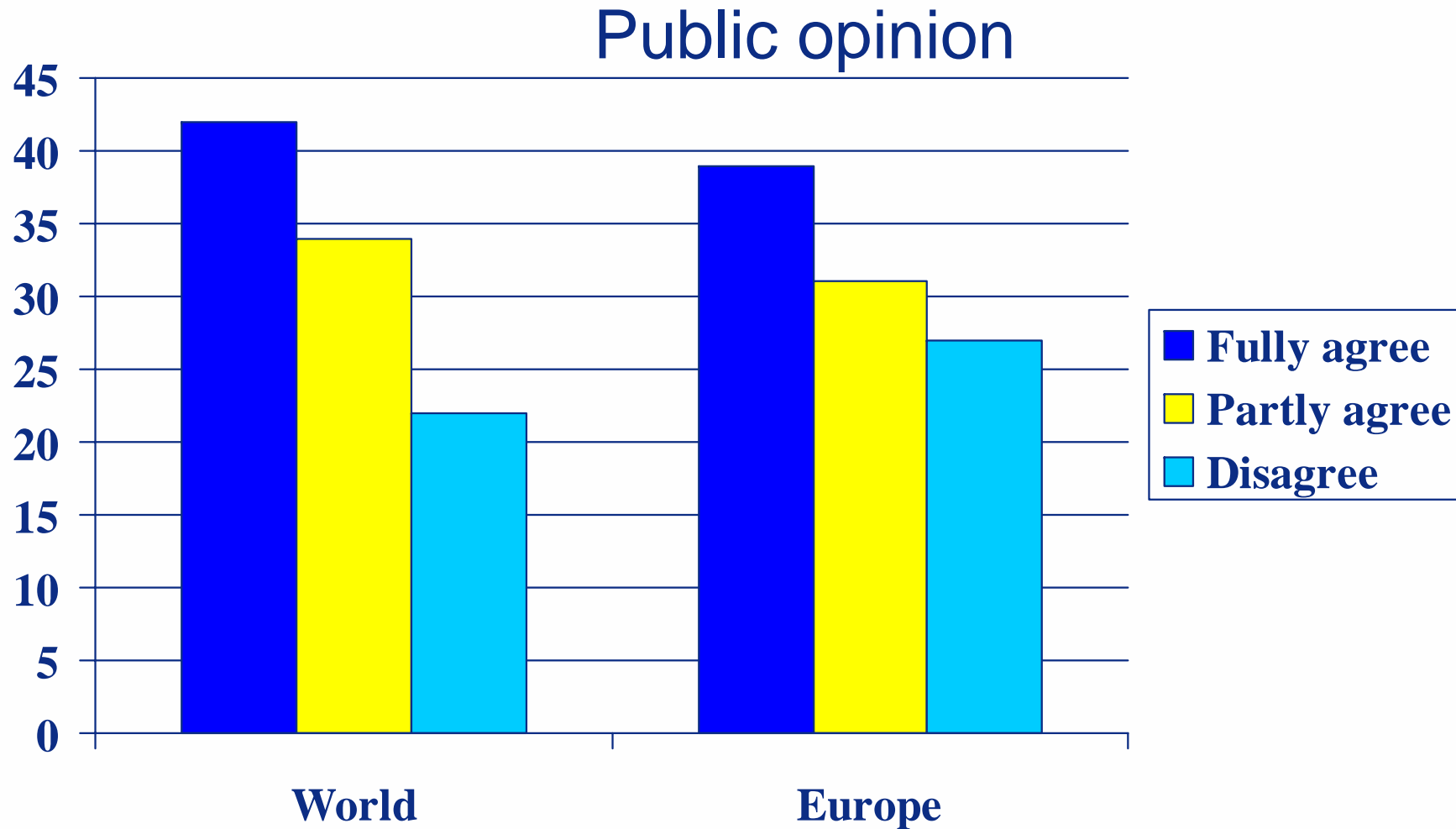
Public opinion



Source: Globescan 2003

Public expectations (2)

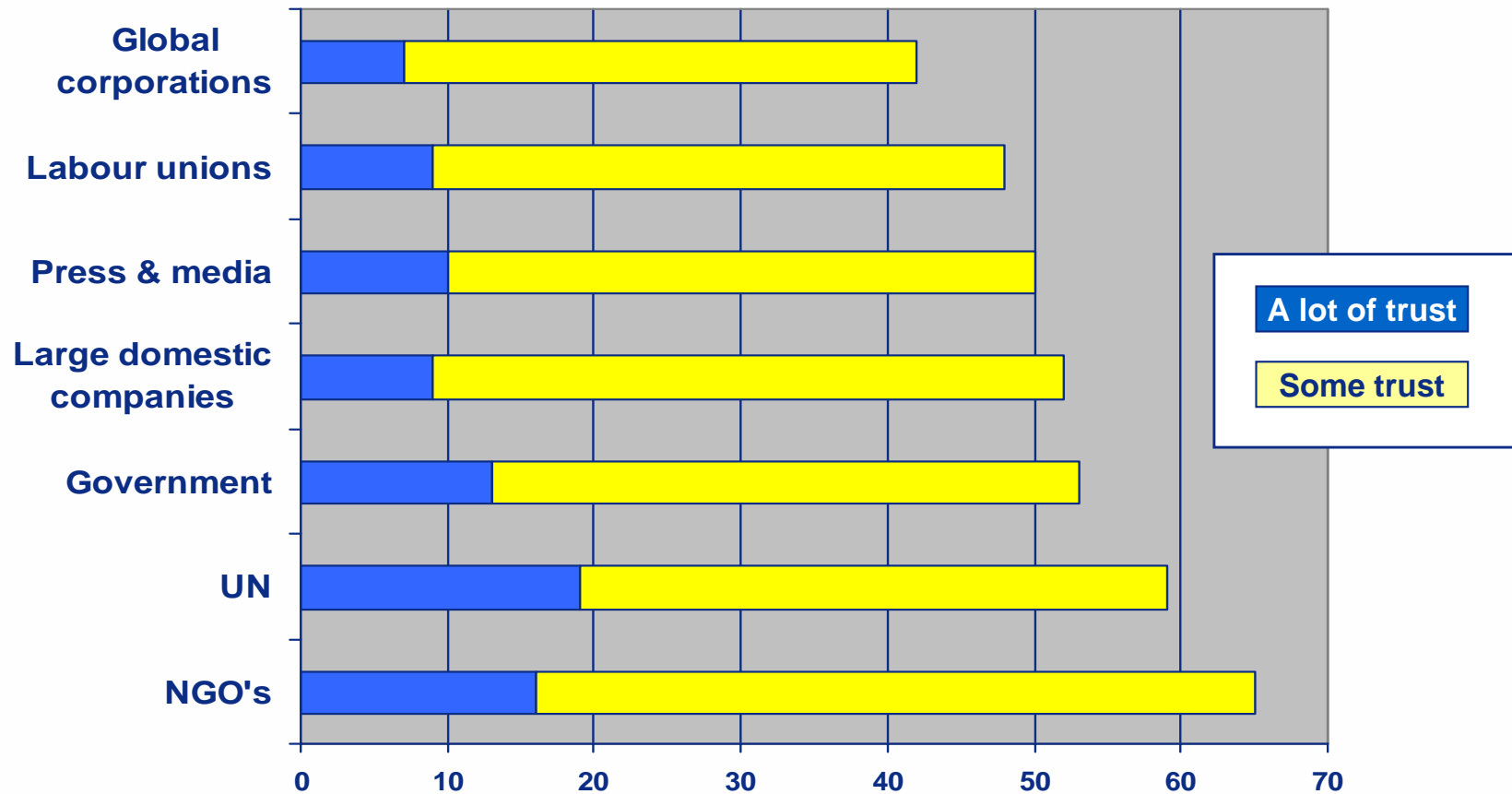
Large enterprises should help solve social problems such as crime, poverty and lack of education



Source: Globescan 2003

Trust in global companies is relatively low

Public opinion: average of 20 countries surveyed



Source: globescan: 2004

Growing number of NGO's watch companies



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



Child labour



war zones



Working conditions



HIV/AIDS



Illegal logging



Landownership



Human Rights



Labor issues

Environmental Risks

example: The Greenpeace Campaign Against HP



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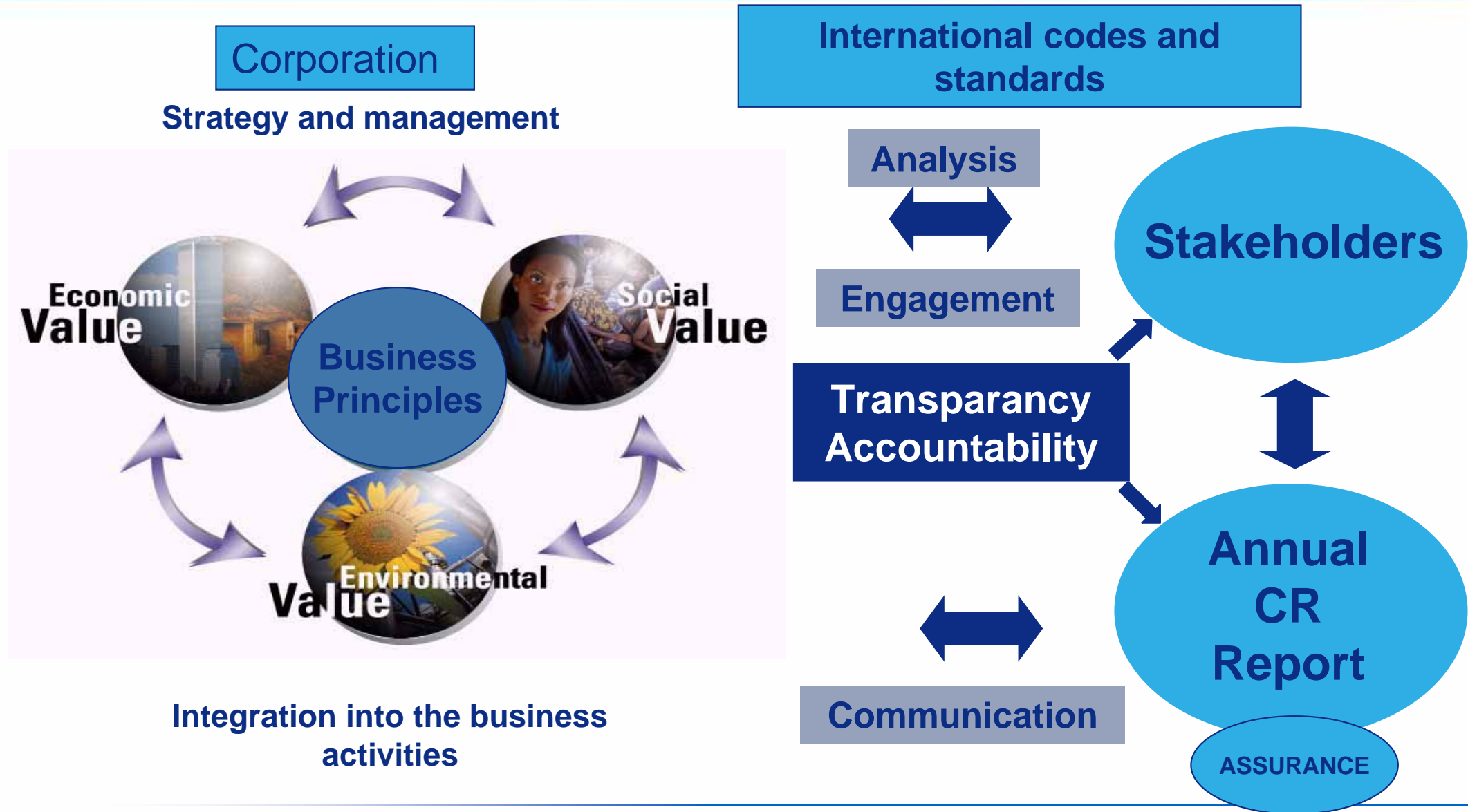
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The response of companies: managing risks and creating value



Relevance of Standards

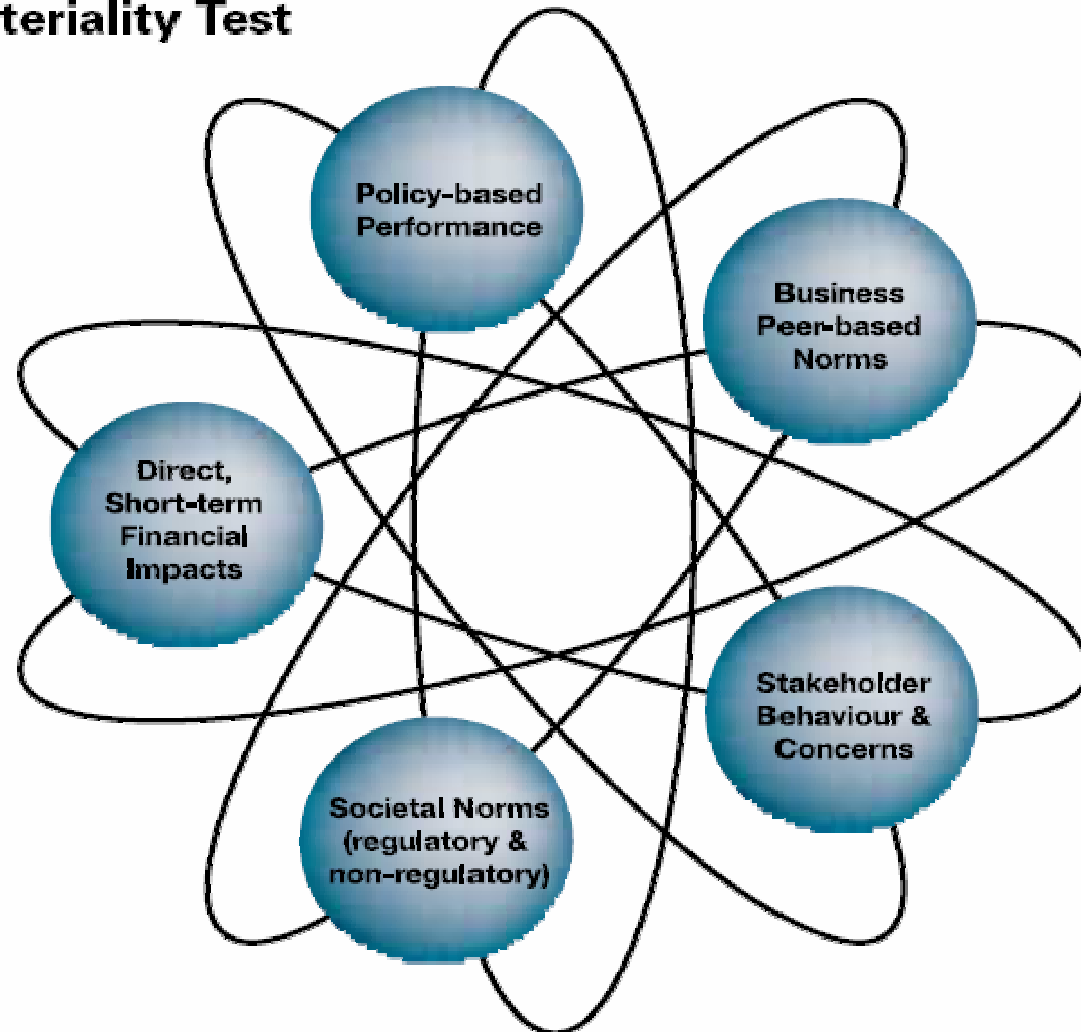
Name	Key issues addressed	Business Relevance
OECD Guidelines for MNEs	Principle normative framework for MNCs Human rights; environment; ILO core labour standards; anti-corruption; taxation; consumer protection, etc.	Voluntary; possible frame of reference for a CR Code of Conduct Risk of reputation damage: 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

Norms

Processes

How companies determine what is important. The materiality test (AccountAbility)

Figure 1
Five-Part Materiality Test



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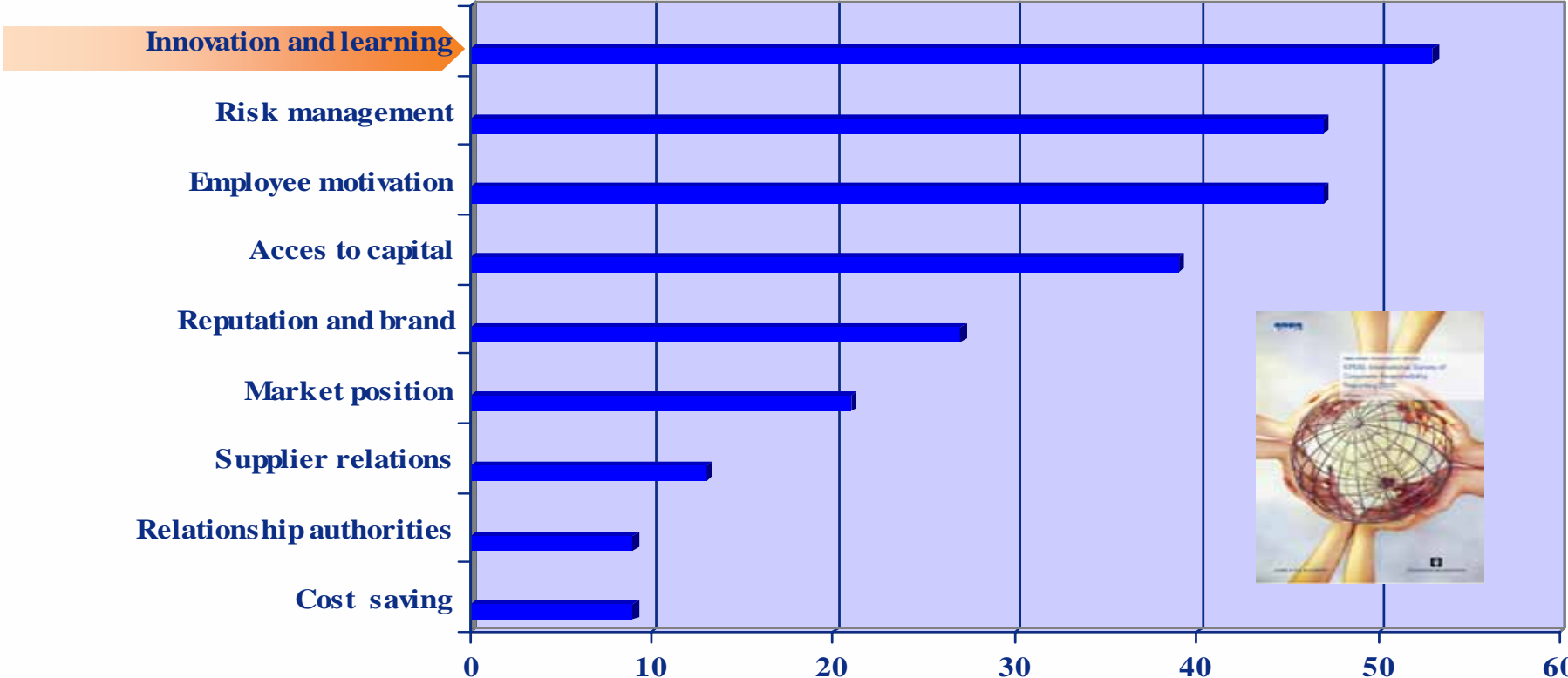
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What do companies see as value creation by CR?

% of companies that mention this specific driver for CR



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)



Gold Award



As Philips' green flagship product for 2005, GoGear Key019 excels in the following green focal areas:

- Energy
- Weight
- Packaging
- Recyclability
- Hazardous Substance
- Life Cycle Perspective

AWARD:

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

Green Flagships:

products with proven better environmental performance

News

March 6, 2006

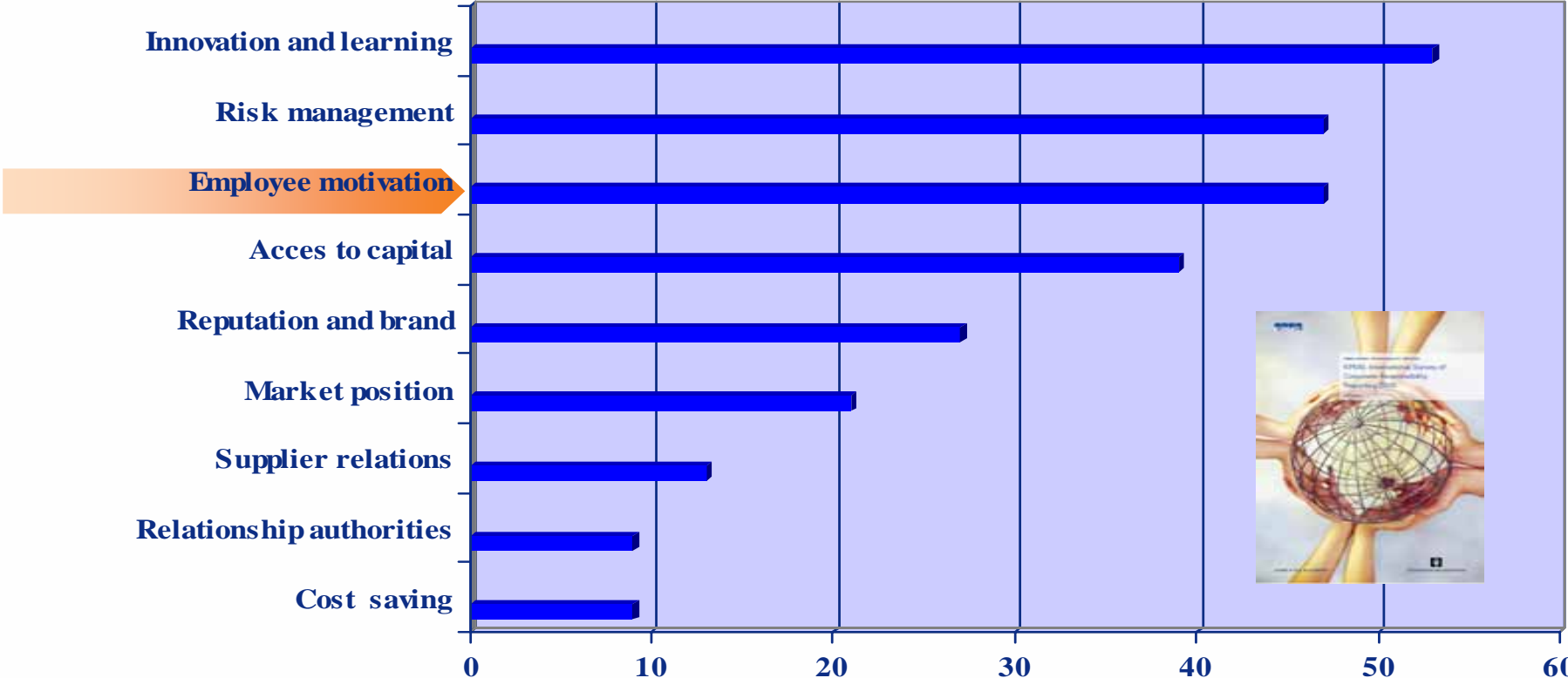
Turnover of Philips' Green Flagship products doubles to 2 billion Euros

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.

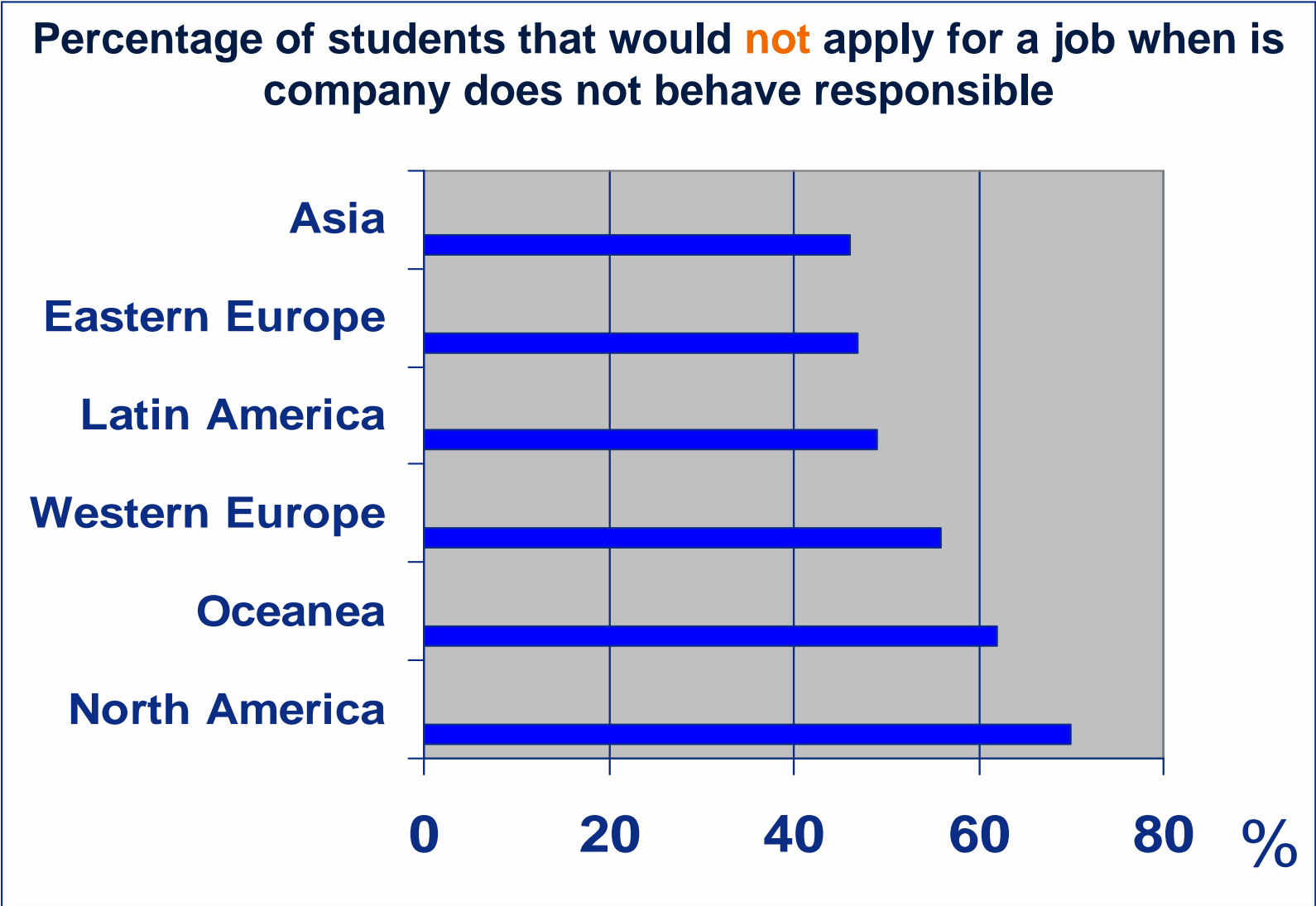
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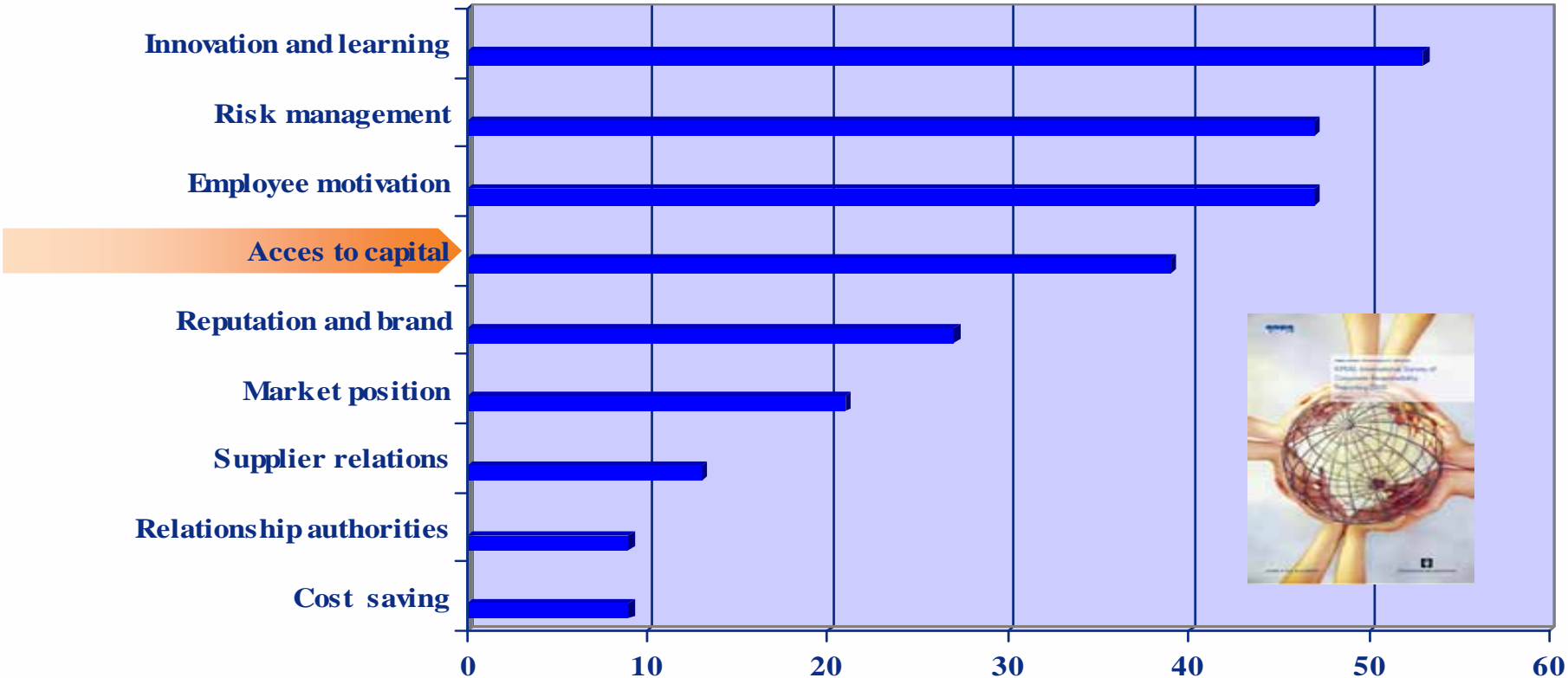
Employee motivation

attract and retain employees



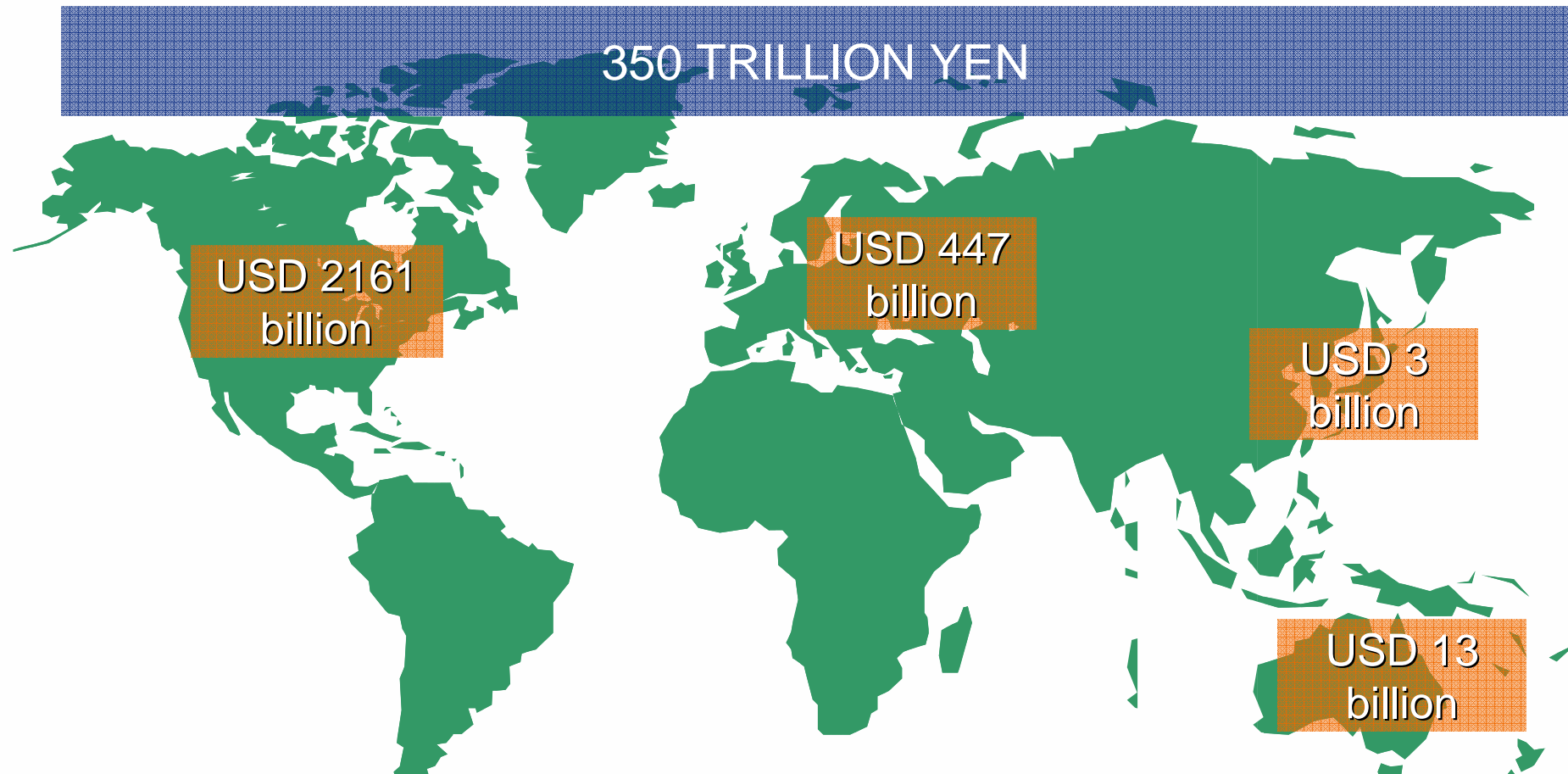
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Access to capital

Professional managed Investments based on ethical, social or environmental considerations

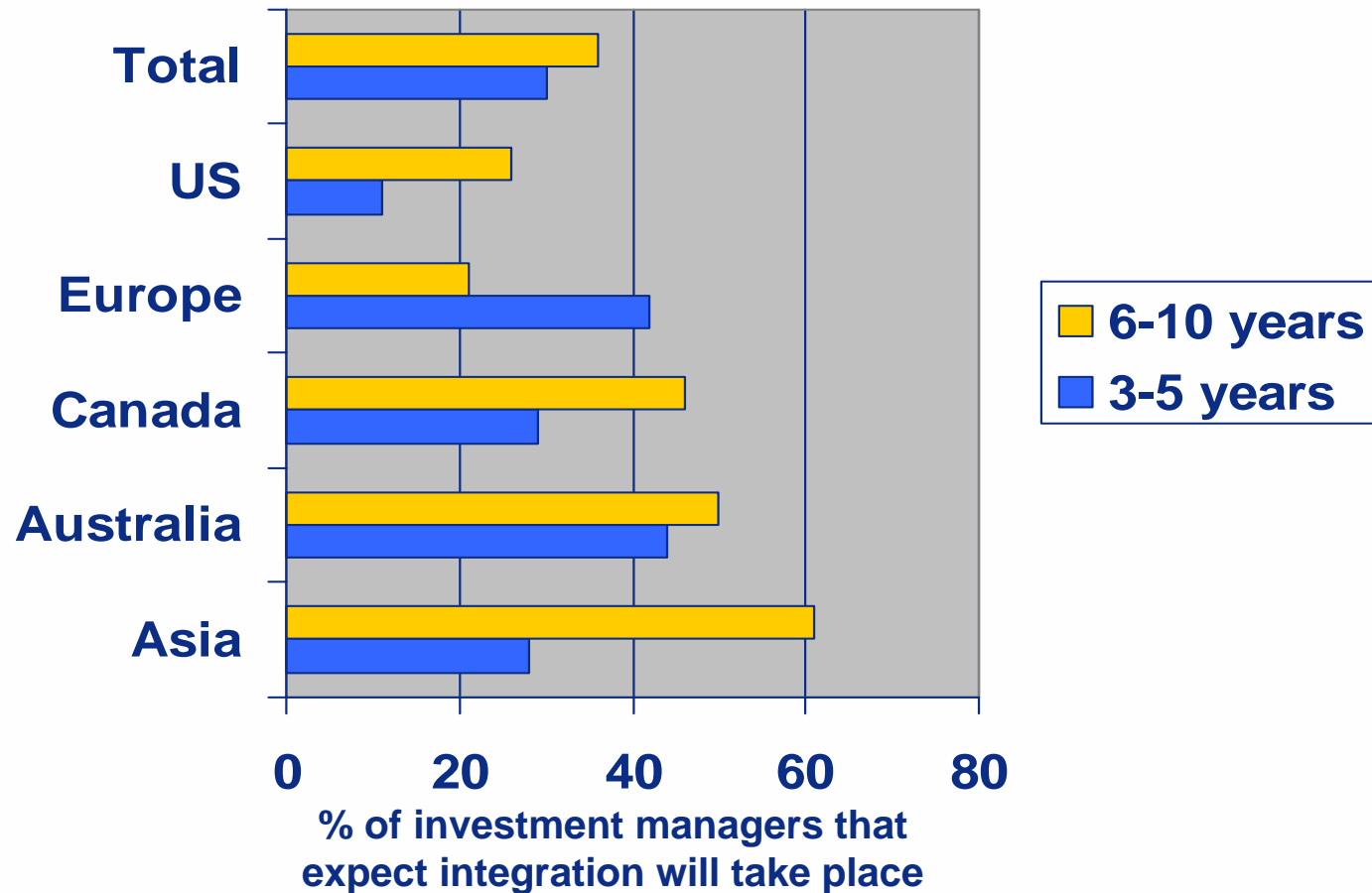


Globally 6% of all professionally managed assets, largely in equity

Fourfold growth in sustainable investments in one decade

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

Survey (investment managers)



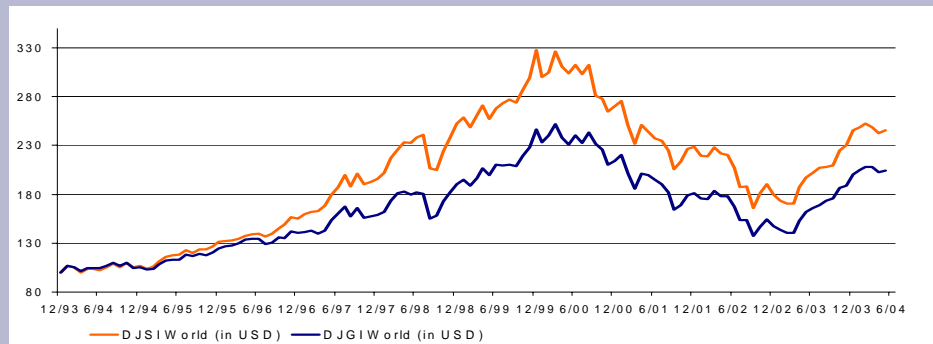
Source: Mercer Investment Consulting , 2005

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

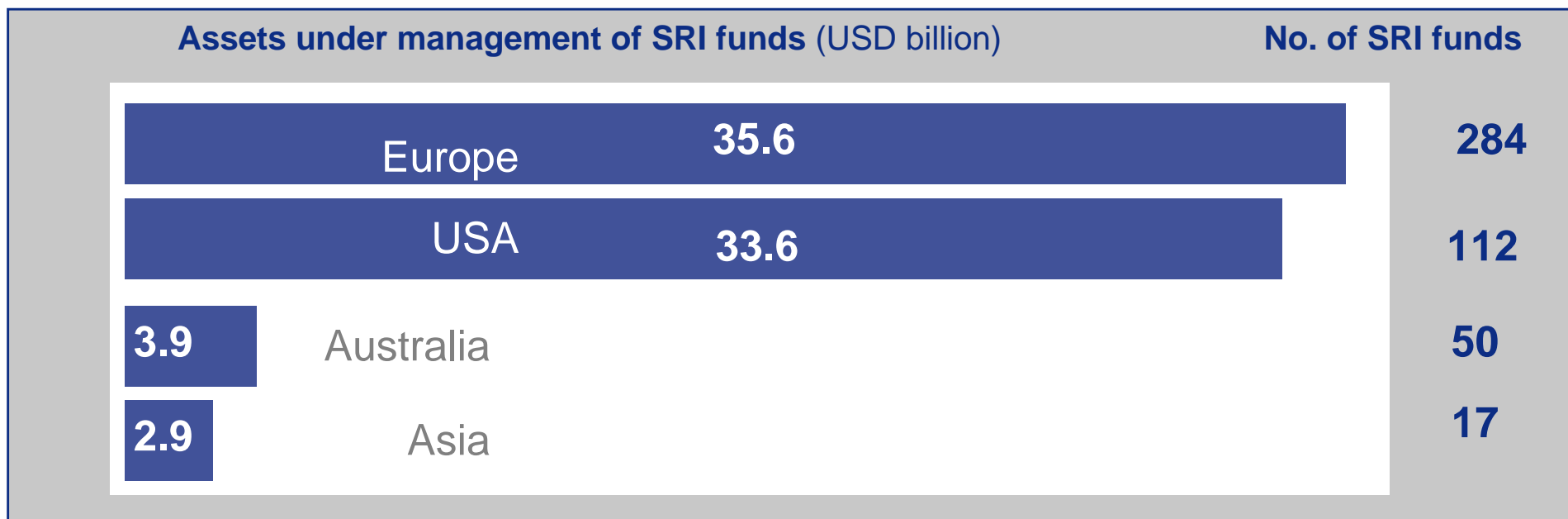
Name	Market Sector	Country
Toyota Motor	Automobiles	Japan
Westpac Banking Corp.	Banks	Australia
Alcan Inc.	Basic Resources	Canada
DSM NV	Chemicals	Netherlands
AMEC plc	Construction	UK
Koninklijke (Royal) Philips Electronics	Cyclical Goods & Services	Netherlands
Statoil	Energy	Norway
British Land Plc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

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

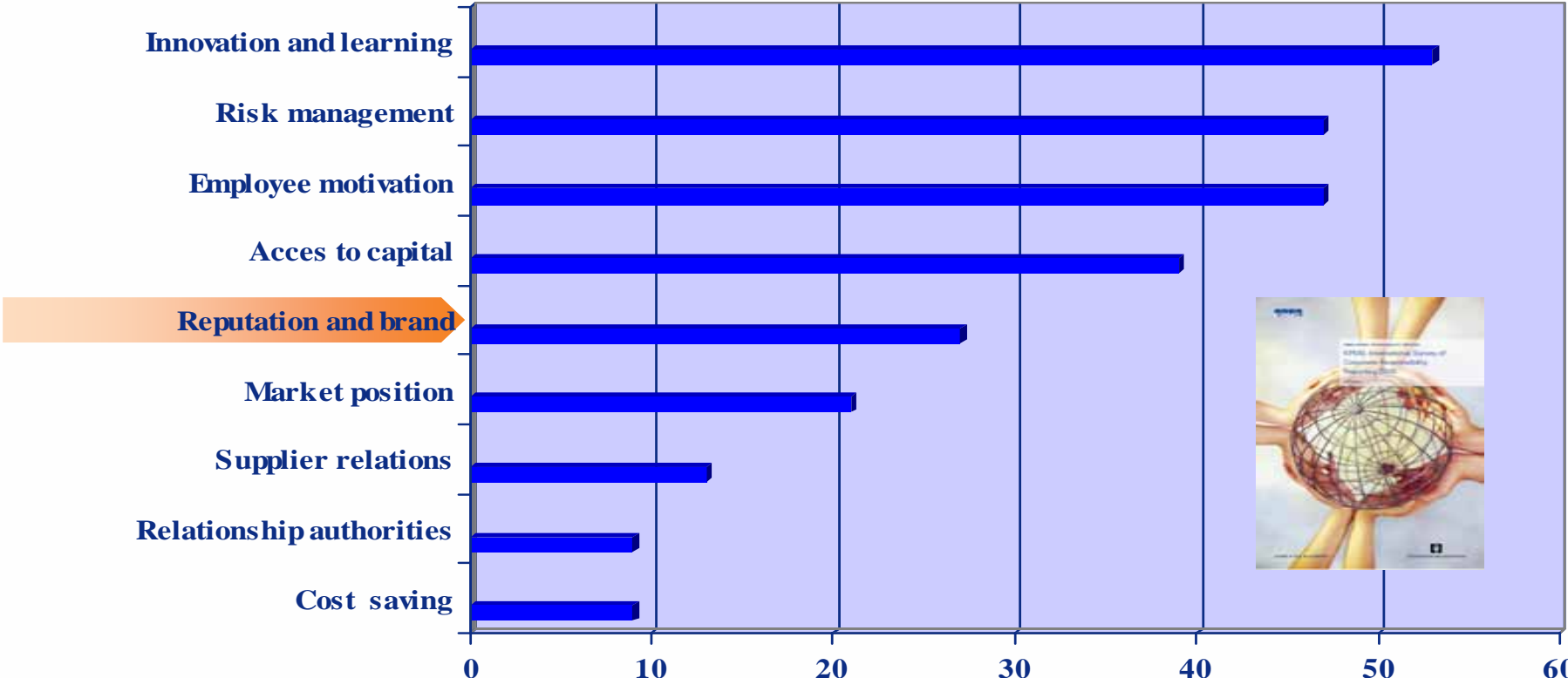
Total: 10 trillion Yen Assets under management



- 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

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% of companies that mention this specific driver for CR



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

TV ad - Toyota Prius suicide

'The Toyota Hybrid Prius:
good for the environment,
good for you'



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

Top Ten der VCD Auto-Umweltdiste		
1.	Toyota Prius1	8,30
2.	Citroën C1 1.0	7,94
	Peugeot 107 Petit Filou	7,94
	Toyota AYGO	7,94
5.	Daihatsu Cuore 1.0	7,79
6.	Opel Corsa ECO 1.02	7,76
7.	Daihatsu Sirion 1.0	7,67
8.	Renault Twingo ECO 1.2	7,60
9.	Toyota Yaris 1.0 ECO3	7,54
10.	Suzuki Alto	7,43



PRIUS
Think differently. Think green. Think Prius

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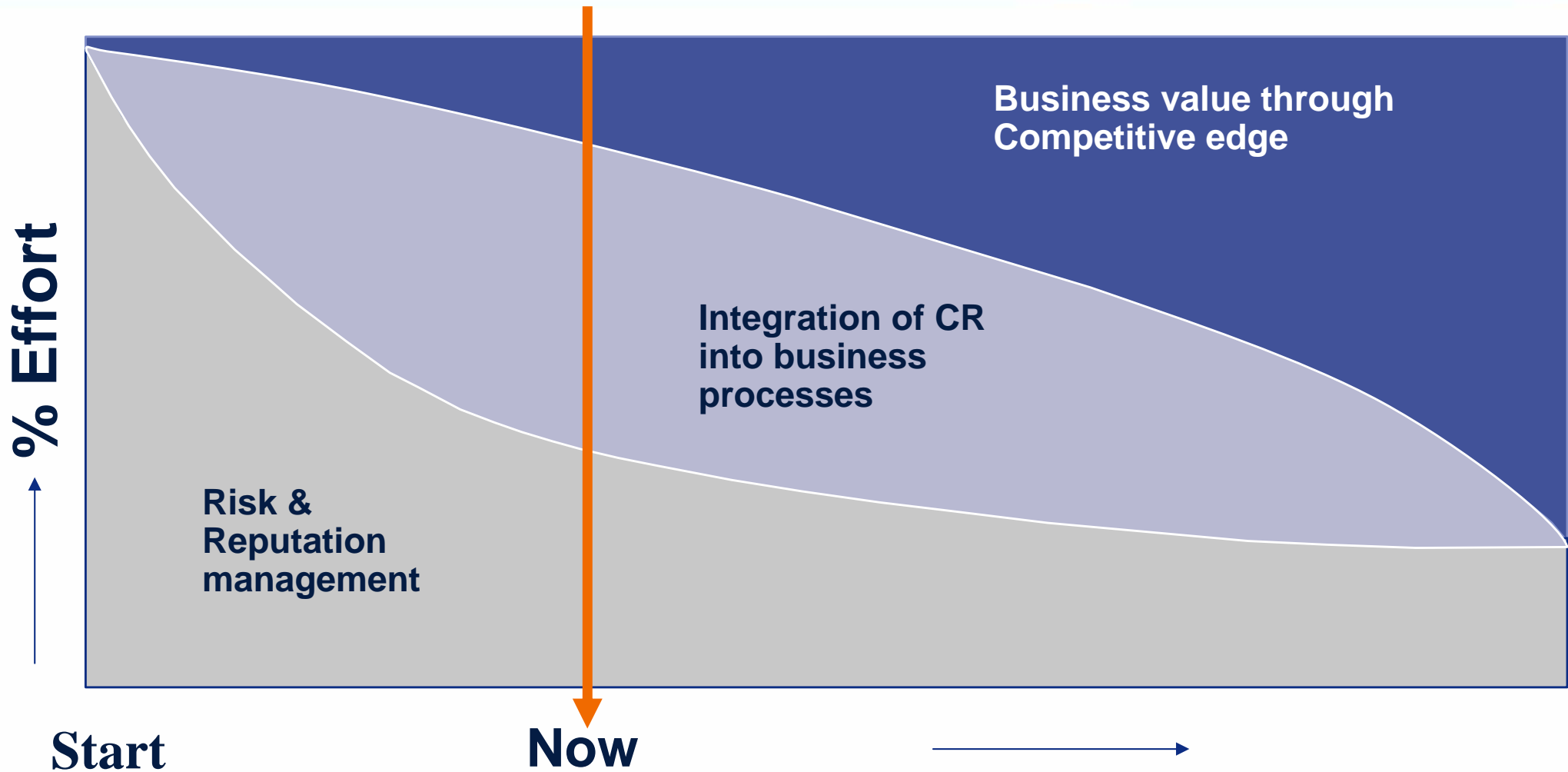
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CR implementation in business is a challenge for most European companies



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

North America

**Shareholder focussed
(Anglo-Saxon-model)**

**Focus on (strategic
corporate philanthropy /
giving (foundations))**

**Community involvement
Employee volunteering**

**Focus on corporate
governance-dimension of
CR**

Compliance driven

Influence Sarbanes Oxley

Japan/Korea

Harmony

“San-pou- yoshi”

**Supplier/Customer/
Product focused**

Environment focused

**Linkage CR and product
branding**

**Shift starting from
environment to social
topics**

Western Europe

**Stakeholder focussed
(Rhineland-model)**

**More EU-directives on
CR/legislation**

**Integration CR in core
business processes:
CSO function**
**- R&D, purchasing, M&S,
logistics, IR etc.**

**Focus on social topics
(e.g. labour conditions,
human rights and
community)**

**Linkage CR and
corporate image and risk
management**

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- 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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