Institut RSE
MANAGEMENT

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GIVING VALUE TO EXTRA-FINANCIAL INFORMATION

How to bridge the gap between issuers and users of CSR data in growing complexity?

Comment rapprocher utilisateurs et émetteurs d'informations extra-financières pour valoriser le reporting RSE ?

Etude internationale et recommandations

Summary

Editorial de Marie-Pierre Peillon, Présidente du conseil d'administration de la SFAF.................2

Introduction by Patrick d'Humières, CEO of IRSE Management..3

Synthèse 4

Executive Summary 7

A. Methodology 10

B. Context 12

C. Consensual observations 15

D. Grey areas 18

E. Game changers...20

F. A glimpse of the future 24

G. Recommendations 29

Conclusion..32

Appendixes 35

Editorial de Marie-Pierre Peillon, Présidente du Conseil d'administration de la Société Française des Analystes Financiers (SFAF)

La réponse des commissions Immatérielle et Développement Durable de la SFAF à la consultation de l'IIRC de décembre 2011 témoigne du soutien de notre association à l'initiative sur le rapport intégré.

Plusieurs raisons motivent notre engagement:

- La définition du Rapport Intégré, un rapport unique contenant des informations financières et extra- financières, s'inscrit dans les principes continuellement développés par la SFAF: comprendre l'ensemble des fondamentaux de l'entreprise pour mieux appréhender son développement futur.

- En second lieu, la rédaction d'un Rapport Intégré indique que l'entreprise sort de l'ère de la simple communication pour entrer dans celle de l'intégration et d'une nouvelle définition de la création de valeur.

- Enfin et surtout, la mise en place du Rapport Intégré pousse l'approche extra-financière vers la maturité: un cadre d'informations et de reporting standardisés pour comparer les acteurs d'un même secteur, devra être défini, et ce rapport devra être audité par des tiers.

Ainsi, l'ensemble des parties prenantes se retrouvera dans ce document. La SFAF considère que l'évolution vers le Rapport Intégré témoignera d'un retour à la prise en compte des fondamentaux de l'entreprise.

Introduction by Patrick d'Humières, CEO of IRSE Management

The present challenges of extra-financial information are clear for the issuers – companies subject to an expanding pressure –, as for the users – raters, investors, stakeholders -, expecting relevance and materiality: we need to rationalize the process which delivers data and to simplify the access to this data, within a common and coherent framework, at the lowest cost. As a consulting company, focused on CSR metrics, IRSE management felt the necessity to clarify this challenge and to find out solutions from the critical point of view of users who will decide the future of extra financial information. If we don't foster progress to bridge the mutual expectations, CSR data will remain a problem and will take time to appear as one of the primary solutions to diminish risks and improve trust in the business.

Considering the diagnosis, we propose ways to encourage this rationalization. One is to advise companies to invest in their policies rather than in the definition and the collection of the data, and to use experts to save time and money. Second is to encourage regulators and actors to foster convergence in terms of requirements, to simplify the spectrum of CSR data relevant to measuring a sustainable business. We open the dialogue on these conclusions and invite you to communicate on the following blog: www.reporting-rse

We will provide a conclusion to this debate shortly, hopefully contributing to the fantastic initiative taken by Aviva Investors to settle the CSR reporting issue within the upcoming RIO +20 Conference and among the crucial think tank leaded by IIRC to promote integration of financial and extra-financial information. There is no progress without measure and no measure without consensus on how to measure properly and easily…..

Thank you for your input in feeding this discussion and generating progress. IRSE Management would be happy to partner with you on this journey. **Patrick d'Humières, CEO of IRSE Management**

Institut RSE Management

Institut RSE is a French expert in CSR data management and reporting. Its services include CSR advisory on strategy, data management, internal monitoring, report writing, report review, and trainings on these topics. Institut RSE specialises in CSR data management and CSR reporting. Institut RSE offers the following services – under the name CSR Metrics:

- Strategic advisory for defining internal monitoring and external reporting that:
  - Is relevant to the company, its context and its stakeholders
  - Allows the company to improve its CSR performance
- Training
- Designing and implementation of internal monitoring
- Writing of sustainability reports
- Reviews of sustainability reports

Its clients include best in class Fortune 500 companies like Carrefour, HSBC, Peugeot-Citroën etc…For more information, please visit: www.institutrse.com

Synthèse

La valeur de l'information extra-financière : Vers l'intégration des contenus et la rationalisation des outils

La vingtaine d'utilisateurs majeurs consultés par l'Institut RSE management entre janvier et février 2012 sont formels. Le temps n'est plus d'inventer l'information extra-financière (IEF) - elle existe et elle se développe partout -mais de bien l'utiliser pour prendre des décisions économiques mieux adaptées aux enjeux actuels. Et de mettre au point les processus d'élaboration et les outils de médiation qui valoriseront mieux ces données dans la prise de décision. Comment cette information peut-elle sortir d'une phase pionnière, qui a consisté à imposer le principe de reporting, pour entrer dans la période où elle deviendra, pour les entreprises, pour les investisseurs, pour les parties prenantes, un outil d'analyse intégrée de la situation globale d'une entreprise, en termes de valeur économique et de valeur sociétale ?

Les défis de l'information extra-financière sont clairement explicités par les utilisateurs interrogés :

- simplifier et faire converger les référentiels – comme le G4 de la GRI a entrepris de le faire – qui se multiplient dans beaucoup de pays (cf. France, Allemagne, Danemark….).
- rendre cette information fiable à travers une professionnalisation des émetteurs, en se concentrant sur les données pertinentes et signifiantes économiquement, et les rendre plus accessibles en passant par des canaux numériques compatibles.

C'est à ce prix que les modèles de prise de décision pourront intégrer ces données extra-financiers pour établir des liens, clairs et quantifiés, entre les actions RSE et leurs impacts financiers pour l'entreprise, et qu'on donnera un sens mesurable aux stratégies de développement durable annoncées par les entreprises.

Rationaliser le processus d'élaboration de l'information extra-financière, faciliterait la contribution de ce reporting aux démarches de création de valeur (recherche de l'innovation, amélioration de la gestion du risque, réduction des gaspillages…) et permettrait de dépasser la démarche d'image qui motive le processus pour l'essentiel aujourd'hui.
Cette étude a identifié **3 grandes actions** que les entreprises et les utilisateurs des données extra-financières (fournisseurs de données, organismes de notation, investisseurs, régulateurs..) peuvent engager.

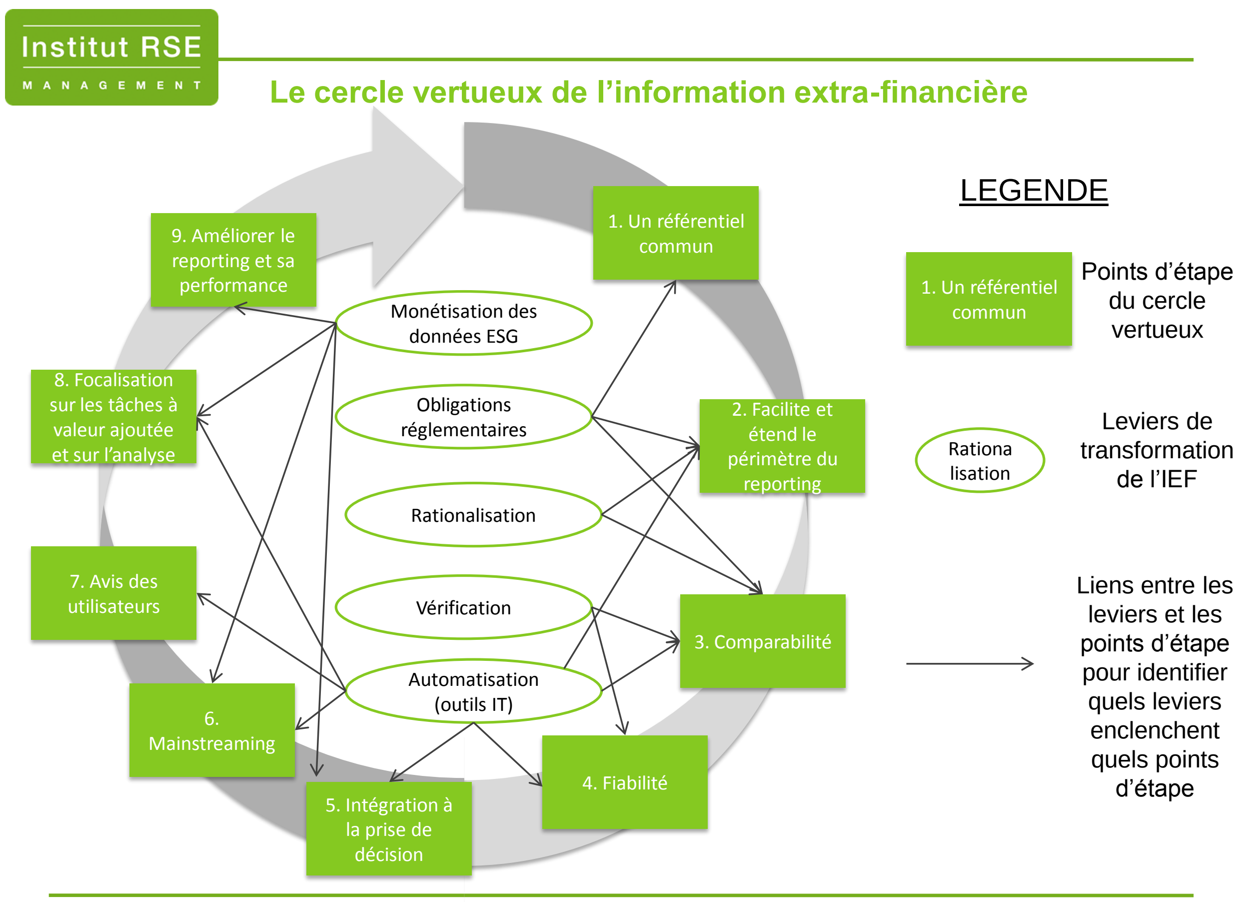
- **Les entreprises doivent éclairer l'analyse de leurs résultats et dire quelle est l'impulsion interne qui motive leur politique durable, pour montrer qu'elles s'intéressent à cette information extra-financière qu'elles produisent**. Elles doivent aussi rendre cette information factuelle plus aisément accessible, via le Web et l'information financière intégrée qui remplaceront progressivement les rapports de développement durable qui se sont dénaturés dans la communication facile.

- ▶ **Il faut encourager la convergence entre les exigences des utilisateurs et des autres parties prenantes**, en simplifiant et restreignant le champ de données RSE dans l'évaluation de la durabilité d'une entreprise. Ce sont surtout des initiatives sectorielles qui devraient fournir des lignes directrices. Les entreprises doivent publier en priorité ce qui est fondamental: 10 à 20 KPI sont aujourd'hui pertinents quels que soient la taille, l'industrie et le pays de l'entreprise à l'instar de l'EBITDA, le PER ou le ROE pour l'information financière.

- ▶ **Les entreprises doivent affecter leurs ressources différemment et concentrer leurs efforts sur les tâches à forte valeur ajoutée** :
  - sur la mise au point de leur politique et l'analyse des données plutôt que sur le recueil
  - sur le choix et la mise en place d'un cadre de reporting plutôt que sur les réponses aux questionnaires de toutes les agences de notation (d'autant plus que les investisseurs regardent peu ces classements et qu'ils composent leur propre grille).

Des experts peuvent aider les entreprises à développer des méthodes de reporting efficaces en amont et garantir ainsi la durabilité d'une politique RSE.

Cette amélioration se fera par la montée en compétence au sein des entreprises, au contact des conseils et des utilisateurs. Au final, c'est aux entreprises de prendre l'initiative, pour dire ce qu'elles veulent et comment leur investissement en reporting extra-financier doit être bien utilisé. L'IEF est un outil de performance économique que les entreprises ne devraient pas subir, mais au contraire exploiter pour développer la confiance des investisseurs et améliorer leur propre pilotage, dans le sens de la « durabilité ».



Les synergies entre le contexte et les solutions à disposition des émetteurs et des utilisateurs de l'information extra-financière

Enjeux	Contexte actuel - 2012		Contexte futur - 2020		Solutions	
	Pour les émetteurs	Pour les utilisateurs	Pour les émetteurs	Pour les utilisateurs	Pour les émetteurs	Pour les utilisateurs
Référentiels de reporting et de notation	Multiplication = confusion		1 référentiel commun + des sectoriels et des thématiques	Modèles d'analyse sectoriels et focalisés sur les points clés	Cibler les référentiels les plus pertinents pour son activité	Concentrer l'analyse sur les points clés
Processus de reporting interne	Manque de ressources Temps disponible monopolisé par les tâches à faible valeur ajoutée (collecte, questionnaires)		Collecte automatisée Analyse pour actions et prise de décision	Equipes de recherches ESG alimentent les analystes financiers sur les points clés	Focalisation sur les tâches à forte valeur ajoutée Sous-traitance de la collecte	
Communication de l'information extra-financière	Plusieurs format non-reliés entre eux Rapport DD à part	Transparence limitée sur la méthodologie	Reporting 2.0: supports numériques et web interconnectés	Connexion numérique directe aux supports des émetteurs	Développement de plateformes communes pour télécharger et échanger les données et augmenter leur accessibilité	
Obligations réglementaires	Volontaire et obligatoire (mais sans sanctions)	Volontaire (UNPRI, protocoles Equateur and autres initiatives)	Plus petit dénominateur commun IEF obligatoire dans l'info financière	Obligés d'expliquer comment ils prennent en compte l'ESG (ex en France Grenelle 2 art 224)	Anticiper la réglementation et s'assurer d'être en conformité	Démontrer que l'IEF est intégrée à la prise de décision grâce à son propre reporting
Fiabilité des données	Fiabilité limitée Vérification onéreuse	Prudence dans les classements car données brutes peu fiables et manque d'analyse terrain	Données fiables pour mesurer les évolutions et les progrès; et ainsi faire les meilleurs choix	Evaluations fiables corroborées par des avis de parties prenantes externes	Amont: construire le meilleur processus de reporting Aval: vérification interne & externe	Demande d'information sur le processus Intégration d'avis externes
Informations de détail vs informations stratégiques	Focalisation sur le détail: remplir les indicateurs et approche "cocher les cases"		Focalisation sur les enjeux les plus significatifs pour chaque émetteur		Définition de priorités et d'objectifs à commenter dans le temps. Publication des informations complètes en ligne	
Valeur de l'IEF	Réduite: surtout en termes d'image, de réputation et de gestion des risques. Sauf pour les leaders	Réduite vu que les investisseurs ne paient pas l'IEF à son coût réel. Sauf pour les leaders	Elevée car utile aux clients, aux investisseurs, aux talents	Elevée: impact financier de l'IEF intégré à l'analyse financière	Déterminer le "business case DD", se focaliser sur les points clés, obtenir le soutien en interne	Accélérer la recherche de matérialité économique de l'IEF. Obtenir le soutien des places boursières

Executive Summary

Increasing value of extra-financial information, towards rationalization and integration

The 20 major users interviewed by Institut RSE Management between January and February 2012 share a common and clear vision for extra-financial information (EFI). The time for inventing this information is behind us – it exists and it spreads worldwide. It is time to use it well and to make economic decisions more adapted to the current issues. Construction processes and mediation tools are also much needed to integrate this information into decision-making.

The challenges of EFI are explicit for the users:

- Simplify and bridge the reporting guidelines – such as the GRI's G4 – that are multiplying in many countries (France, Germany, Denmark)
- Make this EFI reliable via mainstream use and a focus on the most relevant data – especially economically speaking. Increase accessibility by using digital platforms

These are necessary to foster corporate decision-making models integrating this data, which will establish clear links between CSR actions and their financial impacts. Moreover, it will help users and issuers measure the input and output of their CSR strategies.

By rationalizing the whole reporting process, from the upstream to the downstream, EFI will contribute to creating more internal value (enabling innovation, improving risk management, saving costs) and not only external value (brand image, investor and talent attraction etc).

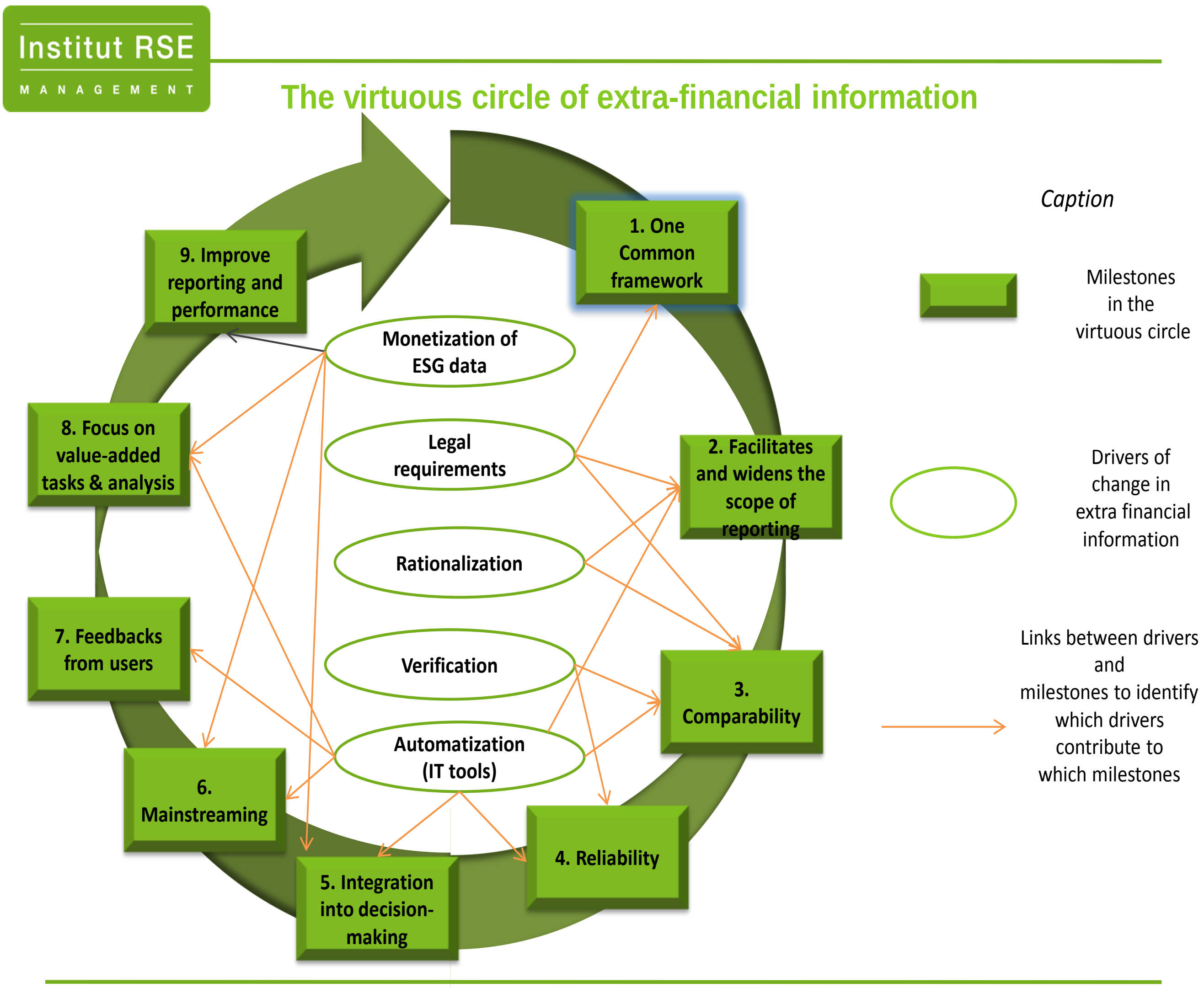
This survey has identified several concrete steps which should be taken by companies and/or data users:

- Companies should identify the internal drive behind the CSR strategy and comment the results; helping users understand the weight they attach to EFI. Actors have to make the quantified information more accessible, online or within the formats of financial information that will increasingly replace sustainability reports, discredited after many years of communication and storytelling.
- Encourage convergence between the requirements of users and other stakeholders by shrinking the spectrum of CSR data relevant to measuring the sustainability of a business. Sectorial initiatives are in the pole position to provide guidelines and frameworks. Companies need to disclose in priority what is fundamental: 10 to 20 non-questionable KPIs, relevant regardless of the size, activity or location of the company, as are EBITDA, PER or ROE for financial information.

- Allocate resources differently. Companies should focus their efforts on value-added tasks:
    - policy-making and data analysis rather than in data definition and collection
    - choosing and implementing a framework instead of answering any and all ranking questionnaires (especially considering end users such as investors do not pay much attention to rankings).

Experts can help companies build efficient reporting methods upstream and ensure sustainability of CSR strategy.

The offer will progress through the skills of the firms, assisted by their advisors. All in all, companies ought to take the lead, say what they think is relevant (and explain why that is) and how their investment in EFI should be used appropriately. Ultimately, EFI is an economic performance tool that companies should not endure but instead use, to create trust with investors and improve their own management, towards sustainability.



Summary of the report: Interconnecting contexts and solutions for data issuers and data users

Topics	**Present context - 2012**		**Future context - 2020**		**Solutions**	
	For issuers	For users	For issuers	For users	For issuers	For users
Frameworks and rating standards	Multiplication = confusion		1 common framework + sectorial or issues-specific frameworks	Differentiated analysis models but focused on key points	Target the most relevant frameworks first	Focus the analysis on key issues
Internal reporting processes	Resource scarcity Time focused on low value-added tasks (data collection, questionnaires)		Automated collection, analysis for decision-making	ESG teams fueling the analysts (using financial & ESG information)	Focus on value-added tasks: outsource collection to be able to enhance analysis	
Communication of the information	Various non-connected formats. Stand-alone PDF CSR report	Weak transparency on the methodology	Reporting 2.0: interconnected formats Web-based	Plugged in to the issuers' digital platforms	Develop common platforms to upload / download the data and enhance data accessibility	
Legal requirements	Voluntary and mandatory (but without sanctions)	Voluntary (UNPRI and other initiatives)	Least common denominator ESG mandatory for financial fillings	Forced to explain how they integrate ESG (ex: in France)	Anticipate requirement and make sure to comply	Demonstrate ESG is taken into account in reporting
Data reliability	Limited reliability Costly verification	Low trust in rankings due to lack of raw data reliability and lack of "off-the-screen" analysis	Reliable data to determine evolutions and progress, and make the best choices	Reliable assessments backed up by external / stakeholders feedbacks	Upstream: set the best reporting process Downstream: internal & external verification	Ask for disclosure on the reporting process and data verification. Use stakeholders' opinion
Details vs. strategic information	Focused on the details: fill in the indicators / criteria and tick-the-box approach		Focused on key material issues relevant for every issuer		Define priorities & objectives to comment over time. Be transparent and disclose online the other useful data points	
Value of EFI	Limited: mainly image and risk mitigation. Except for leaders	Limited since investors do not specifically pay the fair price. Except for leaders	High: useful for clients, investors, young grads…	High: financial impact of ESG embedded in traditional analysis	Think out the ESG business case, focus on key issues, get internal buy-in	Enhance economic research of ESG performance and get supports from the stock exchanges

A. Methodology

1. Aim of the survey

We know it will be decades before financial and extra-financial information reach the same level of consideration. We know efforts are still very much needed before ESG reporting mainstreams on a global level.

However, we see the necessity to stop issuers and analysts from drifting apart now, and to start finding ways of moving forward together.
The aim here is therefore to:

- Identify issues, objectives and means of action that make sense to all stakeholders
- Determine how companies should report, for more accurate analysis
- Identify concrete steps that can be taken to ensure more efficient reporting
- Outline the future state of ESG information
- Identify common grounds and win-win situations that will incite issuers and analysts to evolve alongside.

2. One choice: focus on analysts and mainstream actor

Data contained in corporate ESG reports are used by a wide variety of organizations, who provide stakeholders with ratings, rankings, risk assessments, aggregated data, projection of long-term impacts and returns, profitability, sustainability measures etc. These are the main users of extra-financial information:

- **Investors**: They consider the data to enrich their financial assessment with an evaluation of the exposure to ESG factors.
    - Equity analysts, investment funds, asset managers and owners (pension funds)
- **Data providers**: They do not analyze the ESG content as such: they compile the information and make it available to its customers in an accessible format.
- **Raters**: they use public and corporate information to paint a picture as accurate as possible of the state of a company's CSR policies and the impact they have. Other stakeholders can base themselves on these ratings to have an idea of a company's sustainability efforts.

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- **Project financiers**: They assess the viability of a project and of the company carrying it out. They look at all the material factors and the risks the project represents.
    - Financial institutions (EIB, WB and IFC), investment banks, …
- **Main stakeholders** : They examine all or a specific part of the extra-financial information in order to assess sustainability, identify trends, acquire a better industry knowledge, uncover inconsistencies…
    - NGOs, Governmental institutions, …

We have decided to focus on these data users and gather their opinions and predictions. Our aim was to put together a comprehensive panel, in order to gather viewpoints from very different stakeholders.

- Among the professionals interviewed were CEOs, heads of research, equity strategists, financial analysts, managing directors, sustainability directors…
- Moreover, we took care of avoiding a Europe-centered study and approached an international panel, in order to even geographical differences, focus on global trends and needs, and identify concrete and realistic roads to mutual understanding and synergy building.
- In order to obtain detailed opinions and overall impression on a more qualitative note, the survey was conducted in the forms of telephone interviews.

3. Our panel

44 organizations were approached, out of which 15 agreed to take part in this initiative.

- **Ranking Specialists** (Carbon Disclosure Project, Corporate Knights, CSR Hub)
- **Data Providers** (Bloomberg, RepRisk)
- **Stakeholders & experts (GRI)**
- **Rating Agencies** (Sustainalytics, Oekom Research, Solaron, EthiFinance, European TK Blue Agency, St. James Ethics Centre)
- **Financial Analysts** (Merrill Lynch, Sustainable Asset Management)
- **Investment Banks** (European Bank for Reconstruction and Development, Deutsche Bank)

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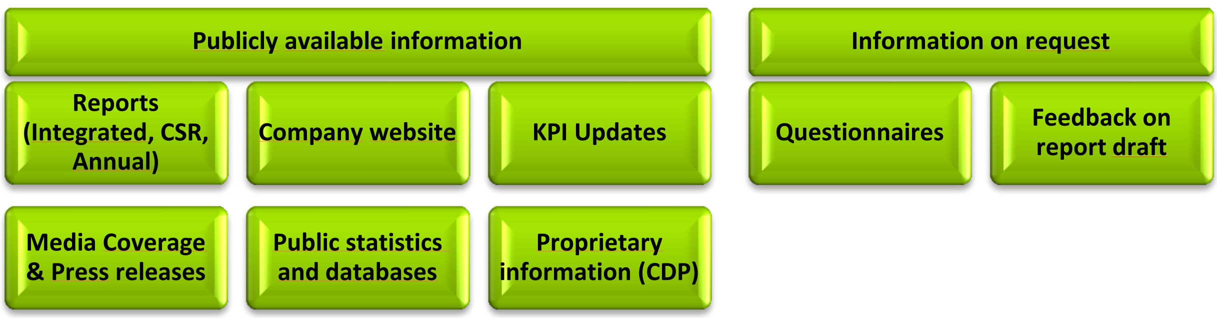
4. Main interrogations

- In order for you to make better and easier use of the ESG data, how should the way of sourcing the information be modified?
- How important is third-party data verification? (I.e. do you think measures should be taken now in the direction of data reliability or do you think they are currently sufficient and that efforts are needed elsewhere?) How do you think this issue will be addressed in the near future? (Software-based sourcing, implication of auditors…)?
- In your opinion, do you think it is important for issuers and analysts to meet frequently? Or is it just a matter of implementing better protocols and more relevant KPI sets? Which topics should be treated in priority?
- Do you think integrated reporting will lead to the end of the 100 pages stand-alone sustainability report?
- What needs to change for financial and extra-financial information to benefit from the same status?

B. Context

1. The source of extra-financial information



ESG data users may use one or several of these sources. While some agencies focus exclusively on either public information or requested information, more and more analysts refer to as many sources as possible in order to reach a more comprehensive image and compensate for the non-verification of corporate input.

A common method is to first go through a company's website and reports, then complete the picture with publicly available information from other sources (general media or governmental research for instance), and finally to consult the company once a profile has been drafted. The company can then react to this information: provide complementary information when necessary, explain in detail their choices, or give its point of view regarding a specific controversy.

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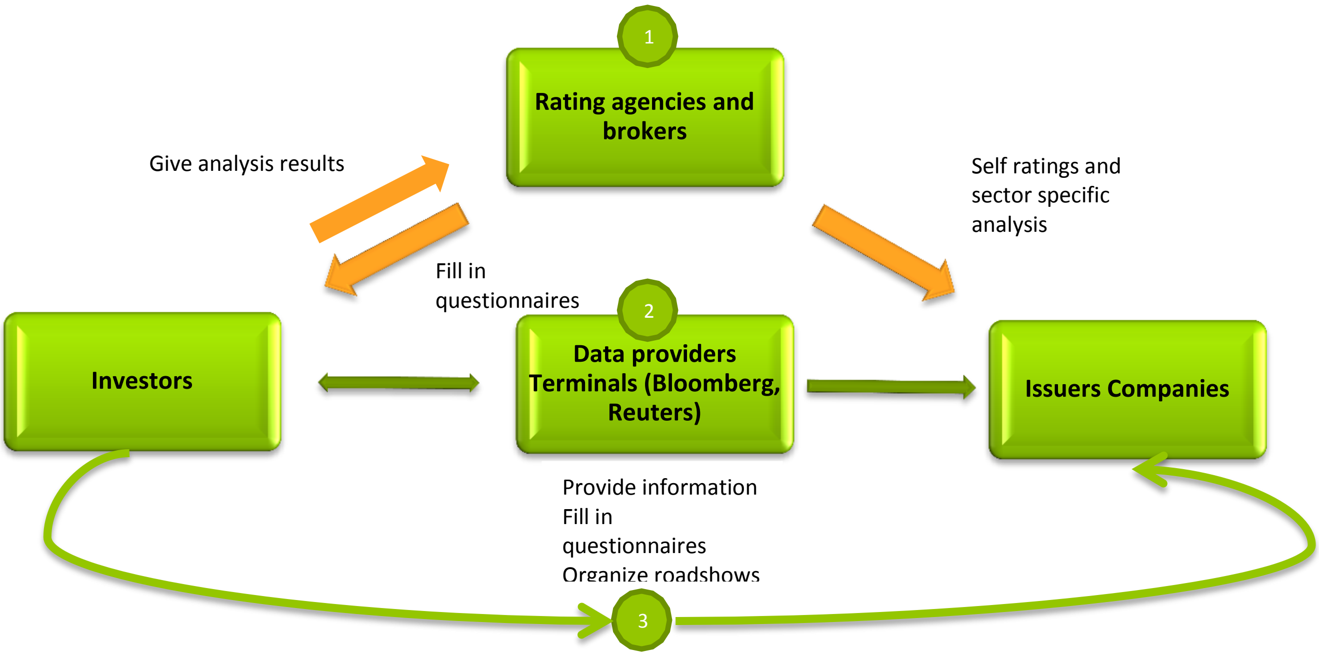
2. The three roads of extra-financial information to reach investors



Direct road: the investor relies on ratings, less on raw data

Intermediate road: the data is made available on financial analysis terminals

Direct road: the information is collected and analyzed by the investor

3. A complex system in need of common ground

- **Pressure on companies** to disclose extra-financial information with a higher degree of transparency and detail. (Aim to raise sustainability awareness and responsibility towards stakeholders, and encourage pro-activity.)
- **Pressure on data analysts** to evaluate risk exposure and long-term financial returns with more accuracy.
- Many countries have set **legal obligations**, directed mainly at larger companies, which act in favor of sustainability and reporting – however the data is published under many different forms and formats.

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- **Independent actions are leading to general confusion**. Standards, reporting guidelines, indexes, ratings and rankings are multiplying (over 100 today vs. 20 ten years ago according to Rate the Raters – cf appendix 1), information is omnipresent, but the relevant parts are difficult to locate, the system is becoming more complex every day. Yet we observe extra-financial information is increasingly connected with financial information.

- **Extra-financial and financial information are coming together, towards integration**

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C. Consensual observations

1. Sustainable change comes from the inside

Many companies have established CSR policies and ESG reporting to meet the demands of their stakeholders exerting increasing pressure. Legal and social pressures have thus certainly helped raise sustainability awareness and improve reporting practices. However, for change to be sustainable, it has to be internally driven.

- **Companies must make these issues their own**, determine which they consider most important, think out how those issues impact their business model and adapt their strategy accordingly.
- **Companies cannot fight all issues at the same time**, they need to **make choices and trade-offs**. These subjects are often very complex and there is never one correct answer – their prioritization is always the result of a subjective viewpoint. (Thus the importance of the determination of internal drivers: these will help companies make choices coherent with the spirit and sensible in regard to sector-specific trends.)
- CSR can also be an important **driver of motivation**. There lies a largely untapped potential behind ESG strategies to be used as drivers of corporate values, unity, pride, and employee motivation and therefore productivity.
- If **CFOs and CIOs** were to fully apprehend the impact ESG issues have on business value, they would take the matter more seriously, which would have important repercussions throughout the business. Indeed, these pivotal positions – top management in charge of long-term strategy and capital allocation – have a strong influence on the company's strategy. If they trust ESG data is material and can affect investment, they will become active actors of ESG strategy, and ensure solid reporting.

For a strategy to be efficient and sustainable, it's important to get all levels implicated, not only the top management. A unilateral will, be it top-down or bottom-up, cannot last. Joint efforts in the same direction are needed to guarantee long-lasting achievements.

2. Communication matters

To help outsiders understand which strategies lay behind the trade-offs, companies must explicit their views in their reporting, and state clearly what they value and what they want to achieve. Companies should therefore regard their sustainability reporting (whether stand-alone or integrated) as a communication tool, a means of being better understood and of demonstrating progress.

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- It is important for analysts to know the strategic, more qualitative and subjective side of the information as well, in order to **understand where corporate choices come from** and how they fit in the long-term view of its members. More specifically: how CSR objectives are set, how they are implemented and how they match the company's overall strategy

- The disclosure of CSR-priorities creates attraction and motivation for like-minded candidates. The **recruiting pool gains in quality** by drawing potential collaborators with similar values and consistent objectives.

- It's not only about what is published but ***where* it is published**. Analysts currently need to track down publications and updates. Having a **common interactive platform** or international portals with a historical database and regular updates would be most useful to all investors. This is a milestone many are looking forward to reaching, but has yet to be achieved. Over the years, some attempts didn't meet their expectations (e.g. the Corporate Responsibility Exchange platform launched by the London Stock Exchange in 2004), while others proved relatively successful, even if they might be limited in scope (e.g. the U.S. Securities and Exchange Commission database).

- Some major players such as Bloomberg are reflecting on the parameters and nature of such a platform, on which data would not only be available but could also be uploaded and updated real-time.

3. The need for a common ground

Defaults and insufficiencies in ESG data has long been pointed out as a major issue, hampering progress on business knowledge and indicator materiality. But now, both issuers and analysts are experiencing resource scarcity and good will has limits. It is time to set frameworks that allow everyone to focus on the high added value tasks rather than the arduous ones of data gathering, transmitting, compiling.

- For issuers and analysts alike, it is **not only time-consuming but also frustrating** to have to focus their attention and resources on data collecting when they should be spending more time and using their know-how on analysis, which is the whole point of reporting.

All stakeholders are **craving reliable industry-specific benchmarking and sector-specific analysis**. This will only happen if the published data is comparable, i.e. if the data reaches a significant level of uniformity or if the frameworks used are interoperable.

- Having comparable information will make the outcome of analysis more reliable and will encourage investors, thus **creating a virtuous cycle of investment and disclosure**, driving the market uphill.

While all agree that the formatted and systematic disclosure of 300 data points is still a very long way off for the majority of companies, it's obvious that there needs to be starting line – in the form of a minimal disclosure bar of 10 universally material KPIs for example (carbon emissions, employee turnover, structure of the board…).

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4. The extra-financial industry needs to enter the professional league

Results rather than good will should be evaluated. **Reliable figures need to be disclosed yearly in order to track and quantify the results**. Having a strategy, objectives and means is not as important or as representative as their impact. Knowing the actual impact can help investors but also companies, who will have a tool for continuous improvement.

- Reports need to be done more **seriously and systematically**, with more quantitative information and a higher level of detail.
- Institutional investors have become increasingly concerned with ESG issues and are sometimes requiring the same degree of precision for ESG and financial metrics. This pushes companies to adopt a more **performance-oriented behavior and explicit frameworks**. Result-oriented KPI sets or progress reports are such ways of visualizing the efficiency of a company's policies.
- It's important that standards for ESG data reach the **same level of rigor as for financial data**. Legal systems should ideally have comparable requirements and sanctions when it comes to accuracy of the GHG emissions as when it comes to that of net income.

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D. Grey areas

1. Defining the right framework

Two categories need to be addressed via ESG reporting, which each require a specific way of presenting ESG information:

- Extra-financial information specialists: Rating agencies, ranking specialists, expert stakeholders, …
- Non-specialists: Financial analysts, shareholders, general stakeholders, …

While the former requires more transparency, disclosure and detail, the latter needs data accessibility and conciseness.

- As of today, **no framework has been found to fully satisfy all parties** involved. Not only are the needs of the various stakeholders disparate, there are also, as in financial analysis, issues linked to irreconcilable opinions. Sustainability of nuclear power or justification of animal testing, for instance, is a matter of point of view.

- These divergences make it clear that the **global use of a single format will not happen before long**. Nevertheless, even if the ideal solution remains hypothetical, we need to start moving in that direction today. At this point, companies therefore need to adopt one way of reporting and stick to it, be it a formal framework or a specific format. The learning curve associated to the use of a single method will also make their reporting task simpler and less time-consuming over the years.

Whatever the method chosen, it should undergo continuous improvement and be flexible enough to adapt to change. The aim is to allow professionals to focus on high added-value activities such as analysis instead. GRI and CDP are two of the currently most widely recognized frameworks, but many groups and commissions are leading research and workshops to map the requirements of stakeholders and achieve a comprehensive consensus. The aspect of flexibility and broad coverage is an important issue, for it will help decrease the reluctance certain issuers may experience when confronted with the formalization of information. Indeed, it's still relatively unclear how qualitative information can fit into a model and be exploited and evaluated. Moreover, can bare figures really reflect the complexity and intricacies of managing a business? Top management expresses concern that it might not be able to defend itself against finger-pointing based on perspective-free raw data.

- An important aspect to keep in mind is that what is published matters more than how it is published. Consequently, many interviewees didn't care to take sides on the currently most relevant framework. Instead, they insisted that companies should, as for financial information, **use tables to disclose** their extra-financial information. Indeed as long the figures published are clearly defined and publicly available, analysts will be able to go on with their work. In order to achieve this, it is therefore necessary to **establish taxonomy** of what is material for a company, and to **map the data** that is or should be available.

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2. The limits of the law

While many recognize that laws are an efficient way of developing certain types of behavior, the question remains as to how long-lasting such a method can be. Therefore, there remain doubts as to how efficient it is to promote change via compulsory regulation as opposed to incentives.

- As in education, a **sustainable behavioral change rarely comes from a "hostile" approach**; it needs to be partially internal to stand a chance. Ideally, companies should want to disclose this information, because they see the added-value for themselves in it.
    - Companies are already subject to a myriad of laws and regulations in every aspect of their business. For international corporations, which are the main target of ESG regulations, these will **add to the current confusion**. Rather than forcing companies to report, it seems more urgent to educate the companies on how to report properly
- Passing a law is only half the work: states need to facilitate law enforcing by issuers and make sure they comply with it step by step. IF they fail, they have to be fined, such as when companies do not disclosure environmental information for Seveso or other high-risk sites. In the absence of incentive or punishment, many firms will prefer preserving the apparently successful status quo.

3. Broader coverage or finer analysis: which priority?

Two main trends: more awareness vs. more accuracy. CSR activities and reporting have soared over the past two decades, although there is still a long way to go before they mainstream. The next challenge is thus to scale up, in two ways:

- Increase the amount of firms disclosing:
    - **Promote integrated reporting**: it develops awareness among stakeholders, investors, financial analysts.
    - **Set a minimal disclosure bar**, e.g. a set of 5 to 15 KPIs, material in all companies regardless of the industry (energy consumption, board structure, employee turnover…). This limited amount of KPIs will encourage many companies to disclose voluntarily the information. Basic analysis on a more important scope and scale with proper comparability will then be possible (sector analysis). The standardization of this basic information will be a precious tool for raters and financial analysts. More granularities can be required after, regarding specific areas of concern; but at least we will have one common base of **simple non-questionable indicators**.
- Improve the accuracy of analysis
    - **Encourage auditing of ESG reports**: Currently, many users are still a little reluctant to resting their analysis solely on data provided by the company. If credibility is conferred to this data via auditing prior to its publication, analysts will consider it to be more relevant and will integrate it more in their analysis.
    - **Follow standard and frameworks** to enhance data comparability. This is needed to attain a high level of accuracy in analysis and benchmarking.
    - Increase the number of data points disclosed, in order to widen the scope and allow fine-tuning of the analysis, and maybe let researchers uncover new links between market performance and CSR strategy.

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E. Game changers

1. The Rise of awareness: an incentive to disclose

Stakeholders are exerting pressure on companies to explain their actions and pursue more sustainable objectives. Companies are exhorted to take responsibility for their impact on the world and being made accountable via their ESG reports.

- **Company value:** The intangible assets now account for 80 % of a company's market value. It was the opposite 35 years ago[1]. Consequently companies are much more sensitive to reputational risk and eager to save these intangibles through better CSR management.

- **Media coverage**: The state of media today allows for a very fast syndication of information. Any news regarding a company can be shared in a click and negative press can spread extremely fast and represent an important risk for the issuer's market value. Recent example: Apple was heavily criticized for sourcing from Foxconn, which faced a suicide wave due to poor working conditions. A year and a half later, Apple, one of the least transparent companies in the world, published the list of its main suppliers. A way of hedging this is to ensure that its activities are coherent with its CSR strategy, and of course to see that the company does not engage in dubious activities. In fact, companies are ever more reluctant to doing so, considering the danger of it being made public.

- **Reputational risk:** Sustainability grows in importance not only in the eyes of stakeholders and investors, but also consumers and clients. Negative social and environmental impacts and bad business practices leave a long-lasting mark on a company's reputation and can have a direct impact on turnover. The drop in sales experienced by Nike after the child labor scandal came to light is a expression of the bad reputation it acquired. Touching a broader public via integrated reporting helps to communicate on positive impacts or control reputational damage.

- With the rise of awareness comes the demand for more **transparency.** While stakeholders understand the need for a certain degree of confidentiality in a firm; they feel that all that is material should be made public and expressed in detail. Moreover, transparency inside specific ESG data points needs to be improved: for instance, regarding the global number of employees, analysts would benefit from a detailed rendition of the same figure as per country.

[1] IIRC, « TOWARDS INTEGRATED REPORTING: Communicating Value in the 21st Century», September 2011 http://theiirc.org/wp-content/uploads/2011/09/IR-Discussion-Paper-2011_spreads.pdf

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2. Ongoing confusion & time consumption

- Extra-financial information disclosure needs to **become more user-friendly**. The sooner this happens, the better, considering the negative image that ESG reporting is starting to acquire. Companies are indeed growing tired of having to answer an increasing number of disparate requests for information, often required in different formats – **questionnaire fatigue** is starting to kick in.

- It is therefore in the best interests of the analysts and data users themselves to standardize their requests as soon as possible, because the more the reputation of data reporting moves towards "hassling" and "inefficiently time-consuming", the more it **raises reluctance of companies** to report in turn.

- Dozens of new rating agencies enter the market every year. Eager to show the difference they provide, they often focus on attention-magnets: major international corporations and industry main players that are usually scrutinized. These thus receive an **increasing number of requests** every year, which can be over 100 pages long. For a sample questionnaire, you can read Nestlé's online response[2] to SAM's questionnaire in 2010 (data for FY 2009). Considering the importance of this workload, companies obviously can't satisfy all requests, but considering the constant change in landscape and the numerous additional players, they **fail to identify the rating and ranking professionals that are most relevant in their branch of activity**. This rise in confusion prevents companies from focusing their efforts on what would be most beneficial.

- Moreover, certain companies now just refuse to answer questionnaires, systematically redirecting analysts to their publically available information, because they **refuse to dedicate time** to a strenuous process they don't see as rewarding enough. Important costs are indeed incurred by locating and sourcing the data. Once the data has been located, the sourcing process should be automatic, in order to spend less man-hours on very low-added-value tasks.

- As focus on CSR activities and ESG data grows, so does the need for accountability, transparency and comparability. The resulting demand for **precise quantitative information** adds weight to a company's burden, because it implies spending more time and resources on reporting. However, the impact of this additional commitment is seldom made concrete for companies in terms of ranking or returns. This creates frustration: the consequences are never drastic but become tangible over time, unlike the direct consequences on productivity and reputation incurred by the time-consuming sourcing and the analysis on the ESG data.

[2] Nestlé's website http://www.nestle.com/Common/NestleDocuments/Documents/Creating%20Shared%20Value/Performance/Nestle-SAM-Survey-2010.pdf

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3. Socially Responsible Investment gaining ground

- Socially Responsible Investment is experiencing record growth rates and it seems to be **continuously picking up momentum**. The UNPRI (Principles for Responsible Investment) for instance, now enjoy the support and adherence of 965 major institutional investors, which represent roughly 20% of the global capital markets. These principles include the commitment to giving a place the ESG impacts in their decision-making process.

- As SRI spreads, mainstream investors and financial analysts too are paying attention to the opportunity this market represents. **All major investment banks have set up an SRI branch** and are in turn injecting capital to support firms with positive ESG impact and sustainable strategies, for these are more likely to provide long-term returns. CSR thus represents a competitive and strategic advantage for firms seeking to attract new investors.

- In the face of financial crisis and resource scarcity, investors are being increasingly cautious. This translates into their requiring ever more specific and precise information, in many domains, including ESG. Indeed, ESG is an integral and **crucial part of risk-assessment and analysis** this information and acting upon it can prevent major blow-ups and scandals from occurring.

4. Support of stock exchanges

Stock exchanges worldwide are expressing their growing interest in EGS issues by creating sustainability indexes and encouraging - or compelling - companies to disclose ESG data. These indexes still have to be used in more systematically; however the will to integrate these aspects in a wider range of decisions is tangible and develops overall confidence in ESG data.

Market places in the developing countries are currently more active in these initiatives than their counterparts in developed areas. But while the major players have yet to make a stand, many feel confident that this has a good chance of happening in the next 5 years.

- **Hong Kong Exchanges and Clearing Limited (HKEx)**

  - The HKEx not only incites companies to disclose ESG data, it also helps them do it efficiently. Indeed, it has set up a series of professional seminars and workshops in order to guide and support companies in their ESG reporting efforts. The free-of-charge service has experienced a big success, with nearly 500 listed companies taking part between May and July 2011.

  - This initiative has also brought the HKEx closer to the data issuers; a very positive fact considering the current project of the HKEx to draft an ESG Reporting Guide in 2012, which they intend to make mandatory in the next few years.

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- **São Paulo Stock Exchange (BM&FBOVESPA)**

  - The Brazilian Stock Exchange too recently recommended that companies listed in it issue regular ESG data and progress statements (report or explain approach). The objective is to gather ESG data that will be made public during the Rio+20 UN Conference on Sustainable Development

  - Similarly to the HKEx, the São Paulo Stock Exchange has organized training sessions to help companies familiarize themselves with ESG reporting.

- **Johannesburg Stock Exchange (JSE)**

  - The JSE was the very first stock exchange to mandate integrated reporting. Since 2011, all companies listed on the JSE must provide an integrated financial report to explicit their impact on ESG issues, on a comply or explain basis.

- **Bombay Stock Exchange (BSE)**

  - In November 2011, the Securities and Exchange Board of India (SEBI) issued a resolution mandating the 100 largest listed companies to publish a report detailing their ESG commitments amid their annual report.

  - In addition, all listed companies are encouraged to follow the 9 core principles of the National Voluntary Guidelines on Responsible Business.

In 2011, the Corporate Sustainability Reporting Coalition (CSRC), led by Aviva Investors with 23 institutional investors (representing in total $1.6 trillion in assets), made a call to the Rio+20 UN Conference on Sustainable Development to meet a decision regarding sustainability reporting. The CSRC, alongside the GRI, promotes the creation of a globally recognized reporting framework based on the report or explain approach.

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F. A glimpse of the future

After many years of pioneering, incubation and innovation, the market of extra-financial information is entering a phase of transition that will consolidate its system and allow it to grow towards more stability and organization.

1. Integrated reporting is bound to grow

The merger of both types of information in one single integrated report sends the message that ESG are of crucial importance, just as are financial ones. Moreover, it's a way of showing that mismanagement may be as harmful for companies' stock and overall performance as financial mismanagement.
Smallest common denominator available, the integrated report is accessible to all companies willing to start walking in the sustainable direction. It is a way to spread interest in ESG issues by centralizing the relevant information on a user-friendly format, far from the 100-pages reports, that make reading too difficult for non-professionals.

An **accessible way** for companies to communicate on their CSR strategy to a much **wider scope of stakeholders**, including financial analysts and investors. The attention paid by non-specialists to extra-financial information is enhanced and this helps **mainstream concern for ESG issues** and raise awareness among general public. Integrated reporting is also a great media to summarize the events if the past year, and show the progress that has been made over that period.
Integrated reporting, which switches the dominant type of content from narration (with 100-page-long CSR reports) to KPIs, is a complementary disclosure approach. Indeed, the urge to quantify CSR activities often leave little place for establishing clear links between the CSR strategy and the corporate objectives. Having this information included in narrative and more global strategic approach gives non-professionals the overview and the coherence they need to grasp the subject.

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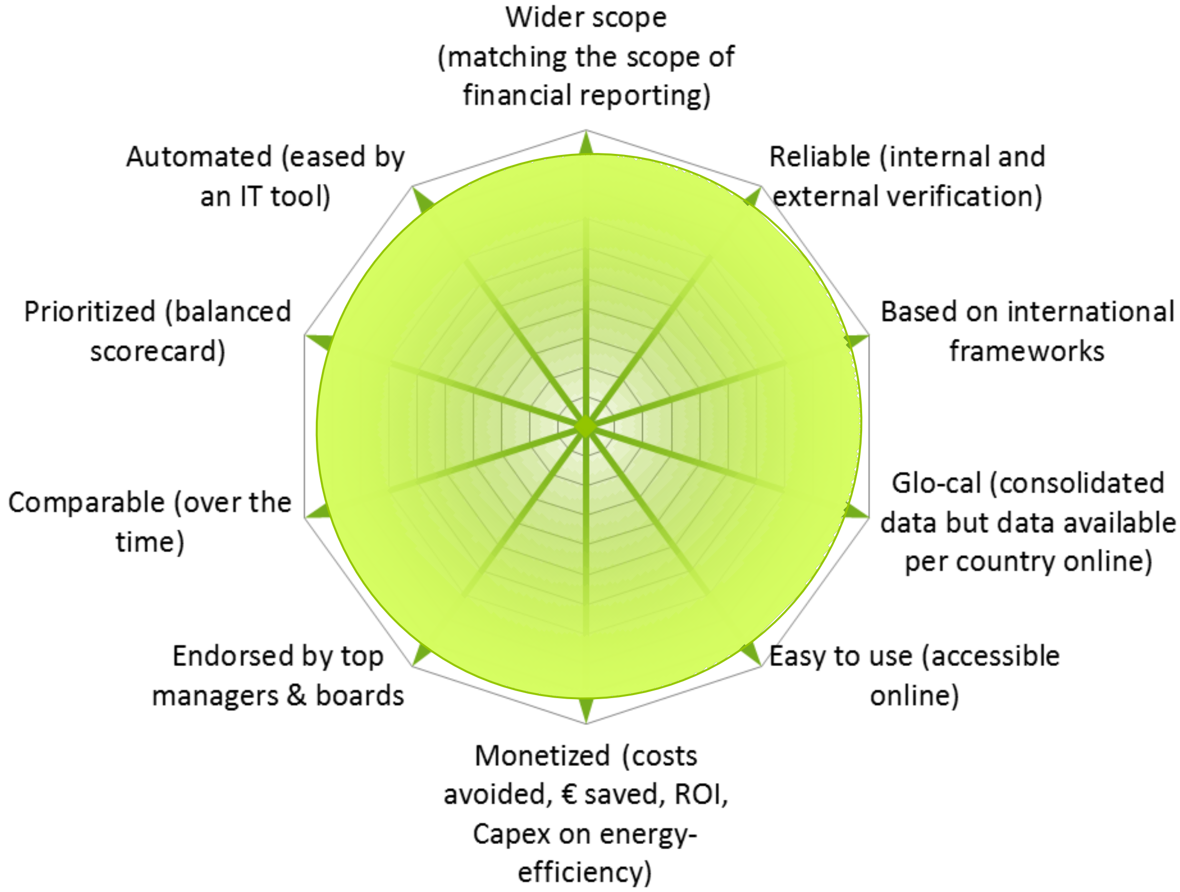

2. ESG data auditing spreads

- This is merely a logical and inevitable choice, for companies cannot be simultaneously judge, jury and executioner. Data verification and auditing is therefore not so much a trend as it is a natural and complementary part of the process **gradually taking its fitting place**. In 2011, 46 % of the CSR reports from the 250 largest global companies provide an assurance statement; up from 40 % in 2008 and 30 % in 2005[3].

- While errors in reporting are regularly pointed out, analysts all agree that the primary point of auditing ESG data is not to measure a company's good faith but to promote good reporting. The approach of going through a validation process also **has to do sound business practices** and good management.

[3] KPMG International, «KPMG International Survey of Corporate Responsibility Reporting 2011», November 2011

- The auditing process creates **internal benefits for a company**: the evaluation of the efficiency of its policies and reporting method leads to a better understanding of its data. Problems can be addressed head on, efficient strategies see their scope widened, means vs. impact of various actions measured.

- External validation is a tool to **examine inconsistencies and detect their origin**. The preoccupying data may have been the result of irregularities in the reporting process, misreported by the firm, in an attempt at greenwashing for instance, or misunderstood by the community. Auditing is way of clarifying these doubts and uncovering mishaps.

- ESG data currently **lack the consistency and clarity** that characterize classical financial reports. Many databases do not include ESG data because its reliability hasn't been formally established by external verification. Auditing provides the credibility extra-financial information needs to be taken into account more trustfully and systematically.

3. Heavy players and consolidation

- The transition phase we are experiencing will see consolidation of the main initiatives happen in the next 5 years. **International heavy players will emerge**, allowing companies and stakeholders to have fewer interlocutors and a clearer vision of the landscape.

- Two main causes lead to this consolidation: firstly, the **natural bridge-building** and development occurring at this turning-point on the industry. Secondly, the **business model of a rating agency** itself: it is very fragile and agencies must generate several million dollars a year, merely to stay in the game. The financial crisis and the difficulty to stay afloat have further motivated the will of many agencies to merge.

- Consolidation has already started and players are now **joining forces to ensure a sustainable future** for their activity and give themselves the means to reach their objectives. RiskMetrics for instance started acquiring rating agencies in 2007 before being taken over itself by MSCI in 2010. Sustainalytics as well is an aggregation of several international agencies.

    - The consolidation of the players will lead to a **greater professionalism** of CSR teams and analysts, as the main actors will have the means of pursuing those research initiatives they deem important, investing enough resources to focus on analysis etc.

    - The strategic advantages and innovations of both sides will rejoin to follow a single purpose, thus **creating synergies** that will lead to more efficient methods of analysis.

- Similarly, they will have the **credibility necessary to pass on messages** clearly and globally: which format to use, what reporting best practices are… Harmonization of requests will allow analysts and companies to focus on high added-value activities, such as conducting industry-specific analysis or identifying best practices.

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- Simultaneously, smaller initiatives are constantly emerging, **filling in the gaps and niches** remaining. TK Blue Agency for example, is specialized in evaluating ESG performance of transportations firms, which are usually left out of general rankings of badly rated, because of the nature of their activity, often involving a great deal of energy consumption. Specialized ratings can provide a ranking specifically adapted to the activity and conditions of a defined segment.

4. De facto standards

Historical actors of the evolution of ESG reporting, major initiatives such as the Sustainability Reporting Guidelines of the GRI, the UNPRI or the CDP have experienced a massive growth in importance, impact, credibility and recognition over the years. Now predominant and trusted entities, they are the point of convergence of many other organisms seeking a comprehensive yet detailed and flexible framework.

- Two factors are going to further encourage the spread of standardization de facto:
  - The consolidation of the market and merger of agencies and organisms working with different methods: In order for the new entity to function well, processes will often need to be harmonized, and adopting an existing widely recognized format guarantees solidity and coherence in the future of the venture.
  - Resource scarcity, associated to the need for data comparability and a finer analysis, is building pressure on both sides to start using standards.
- The matter of standards is becoming increasingly urgent considering the quick evolution of the market, the multiplying of its players and the complexity of reporting. Companies as well as analysts are fed up of wasting time and money on the low added-value task of data gathering. Having no legal framework or official guidelines to follow, companies will turn to the current main players who have established a trusted system and are globally recognized.
- The GRI's scope, as well as the CDP's when it comes to GHG emissions and water consumption, are thus expected to grow exponentially in the near future, strengthen their dominant position and become worldwide de facto standards.

5. Assessment of the financial impact of ESG

The comparability of ESG data is bound to grow thanks to increased disclosure, reporting depth and external verification.

- With comparability comes the identification of relevant KPIs and sector-specific analysis. By examining the financial returns of a significant number of firms in regard to their ESG performance, analysts will be able to sort out the **KPIs which are undeniably material**.
- If disclosure happens systematically, analysts can restrict their research to a specific timeframe and gather very **specific assessments of ESG impacts** of the short-term and the long-term.

- This will ultimately lead to the mapping of material data, the formalization of how KPIs fit in the business model and the establishment of a **causal relationship between financial performance and CSR**. Consequently, ESG factors will become an inherent part of the due diligence process.

6. A little further down the way…

Generalization of the request for ESG data auditing by investors, stakeholders or companies themselves
Requests for auditing of ESG data are slowly starting to increase. The process is currently strenuous due to the insufficient number of auditors familiar with this kind of information, especially considering it includes qualitative as well and quantitative facts.

However, as processes become automatic, software systems installed and ESG issues mainstream, auditing will develop and the barriers to auditing, in terms of costs, efforts and competences, will decrease. This will allow ESG data auditing to gradually become systematic when evaluating the health of a company and the risks inherent to its activities.

- As global standardization slowly takes place, companies will experience a drop in the number of reports and questionnaires requested. In a few years, major corporations may only receive 1 or 2 requests, which will be made available to a wide variety of analysts. Or we may see a new common platform arise, on which companies can upload their data, which analysts could then sort according to their needs and methods.

- While paper reports transcription is still a common practice, it is obviously not one that will last and many companies are setting up information systems and software use that will allow them to source the information automatically. The next step we expect to see happen is for the information to be not only sourced automatically but also to be transmitted electronically and systematically, saving all stakeholders a lot of time and enabling a real follow-up throughout the years.

- The momentum of commitment to CSR and ESG reporting could be drastically amplified by a single move, from discrete stakeholders: the insurers of top management and decision-makers.. As they cover professional liability, we can reasonably assume that these companies too are taking a growing interest in ESG issues. It’s therefore merely a matter of time before they start including a clause of “sound CSR practices” in their contracts, leaving no choice to managers but to follow that lead, while at the same time protecting their own interests by ensuring a more sustainable activity and a better risk assessment.

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G. Recommendations

We give the priority to more rationality in the construction and the use of extra-financial information, in order for it to be efficient and relevant on both sides – the wishful system before 2020.

Once these issues have been take care of however, it will be time to take care of another determining aspect of extra-financial reporting: who has to assume the related costs?

Indeed, end-users aren't yet paying the fair price for this information; and for now, issuers still have to integrate much of the costs for communication, availability and answering questionnaires, which is very time consuming. Analysts will have to work on a viable BM business model that provides a more balanced system.

1. Adopt a logical approach

- **Think before you act instead of acting before you think**: a sound reasoning and a conscious choice always has a more efficient and sustainable effect.
- **Find the drive internally, recognize value for your own company**: Think of where you want to be on the long run, and how CSR might help you achieve that. Pick your battles accordingly.
- **Identify main players** and most relevant ones depending on your industry: Who do you want to communicate with? Who do you want to report to? Which requests are worth answering?
- **Choose a reporting framework**: Pick of the best way to report your data (format, table, framework…) and stick to it. Format inconsistencies over time just add to the confusion and prevent from having a direct and clear view of the evolution. Clearly, no universally satisfying solution is going to emerge soon. However, it's not about choosing the perfect solution, but picking the best - considering the present and future circumstances.

2. Build compentencies inhouse, but get help at the start

Before getting involved in reporting, a company should first have a clear idea of what it is doing and why it is doing it. When this is the case, it can start setting up a reporting process. However, the first steps of setting up ESG reporting are the most difficult and are of determining importance for the future. Many points need to be considered, several commitments made:

- What is the sector's level and quality of reporting
- What are the concerns of the company's main investors
- How the information will be sourced (IT tools? Yearly or quarterly?...)
- Which format will be used
- Where it will be published
- Which questionnaires need to be filled in, which can be left aside

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- The consultation and reflection phase of the beginning should be done consciously in order to **start on the right track, with the right tools**, in the right format and avoid time-consuming low added-value tasks which could be overlooked sanction-free. This is where the intervention of an external expert on reporting matters becomes extremely valuable.

However, it's important not to outsource the decisions and reporting process altogether but to build related competencies in-house, for several reasons:

- It's easier to train a collaborator to the challenges linked to efficient reporting than to train an external CSR professional to the products/services, history, strategy and intricacies of that company.
- Keeping knowledge in-house will represent an asset, in terms of value of the company and in terms of evolution: the changes occurred by the growth of integrated reporting, standardization or stock exchanges recommendations will be more easily dealt with the support of a person who will have had a long-term insider view of the company's activities and reporting
- Reporting skills and performance now constitutes a competitive advantage, which should be developed internally

- Having a professional by their side during the kick-off period will help companies save **on time and resources**, and focus on those actions which will have a positive short and long-term impact.

- Experts can **inform the company on the variety of options** it has, and what each of them imply internally and externally. This phase is crucial because it's not especially easy to change your mind once you have, for instance, started using one specific framework. Making hasty decisions can therefore soon lead to things becoming tricky.

- Companies need reporting **experts to guide** them during the starting phase, help them build solid foundations, and transfer competencies that will allow them to build on them. Experts get companies in the driver's seat by:

- Guiding them through the world of reporting and its actors
- Determining with them which choices would represent most added-value and long-term benefits considering their current position and the industries they evolve in
- Identifying which format and tools would be most efficient
- Choosing the right communication channels to reach the intended public.
- Localizing the most relevant ratings depending on the activity and market

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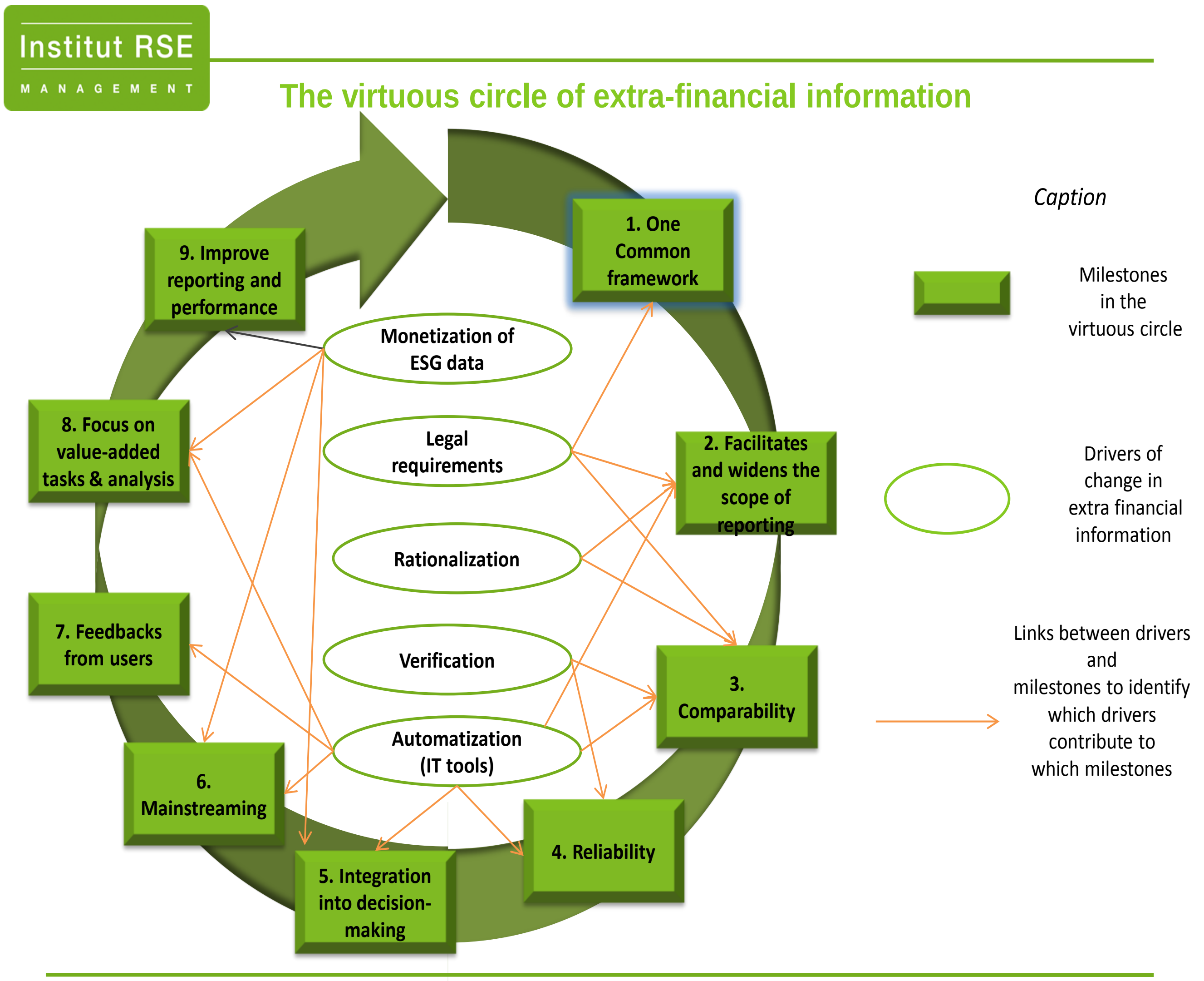
3. Create virtuous circles and synergy

Again, the crucial challenge isn't to get everything right directly, but to give a company the means of progressing and reaching individual and common objectives. This means creating virtuous circles that will guarantee performing and sustainable CSR strategies and analysis, from the point of view of internal development as much as from that of external communication.

Unleashing the added-value of reporting

An increase in disclosure and transparency serves as a catalyst that encourages investments and develops business value, via better knowledge of the company's system and process improvement.



Conclusion

It's not because extra financial information has become a business that it must not be serious. We observe the passage from a cycle of profusion to a cycle of selection. Companies have to rationalize the production of their CSR data to spend less time and money while users have to require the most valuable information to identify the most sustainable actors. This double requirement will bring soon a new extra-financial context, more financial, more organized, more serious. In the interest of transparency and sane competitiveness.

Extra-financial information (EFI) is becoming **a structural component of financial information** for any international company, challenged by investors, stakeholders and risks linked to the sustainability of its context.
This component is **not under control**. CFOs learn how to report and don't perceive yet the real use of the EFI, except one hundred leaders in the world, the same acting among the global institutional dynamics of CSR.
We have to wait at least 2015 and surely until 2020 to observe a control of the conception and diffusion of EFI among the first thousands global or international companies, producing coherent and comparable data, according the next G4 of GRI and integrated within financial information, not so far from the "One Report" promoted by Bob Eccles and Mike Krzus.

But this time is not far. A movement which produces such a change in the management in 20 years is a revolution. As the IFAC report[4] attests and under the pressure of accounting institutions, we can bet that a **common methodology will arise**, producing a sort of universal framework between all the recommendations of financial markets, public authorities, bankers and international investors and even NGO. The convergence is under way. All in all, the **speed of the movement depends on two conditions**:

- **The rationalization of the production of EFI by companies**
- **The facilitation of the connection between companies and users to exploit these data, as it exists today for the financial information**

[4] IFAC « Investor Demand for Environmental, Social, and Governance Disclosures: Implications for Professional Accountants in Business », February 2012 http://viewer.zmags.com/publication/15a83b62#/15a83b62/1

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Increasing the speed of a common methodology's arise, toward rationalization and connection:

- The rationalization of the production of EFI by companies require three improvements within their organization
    - The CFOS and Sustainable managers have to recognize the specificity of the EFI and accept to work with experts to build a proper system and to deliver the data expected by the users in an increasingly integrated context.
    - They have to disconnect clearly the production process of EFI from the communication process of the CSR strategy
    - They have to cooperate with the users to foster the convergence of the EFI, by using GRI (G4) framework and encouraging coherence
- The facilitation of the connection between users and issuers will progress through a better use of digital tools and protocols. The recent multiplication of questionnaires issued by raters, more and more specific and scattered, and the pressure from private organizations with their own requirements on many CSR components, is a disruptive tendency. Transparency has to be established on the main indicators and not on an infinite list of details. The issues are known and must drive the quest for data, as in GRI's approach.

The second mean to access more directly CSR data relies on the **transparency of the users' methodologies**. The movement "Rate the raters" reflects this need. The companies will be more cooperative as long as they know who does what, and how. And it is the least organisms working towards more transparency can do.

If there is a **business of EFI**, it will **belong** tomorrow **to the providers**, who will be the closest to users, who can facilitate the job of the companies, who can guarantee the clarity and the reliability of the data and who will concentrate on the information useful to measure sustainable transparency and performance within the financial information documentation.

Extra financial information is a market, not a compulsory business, even if regulators tend to promote relevance and coherence to increase the quality of the transparency of the whole information necessary in a well governed and efficient economy. **The offer will progress through the competence of the firms**, mostly carried by their advisors**; the demand will progress through the simplification of the supports**, and the inevitable **concentration of the actors** in this field.

But because this **EFI costs** some money to produce, to control, to diffuse, **the value users give to it is crucial**. **Companies will invest if users take into account this information and users will pay to analyze this information, if it is more economically consistent**. This virtuous circle is the challenge that everybody has to consider in this chain. The quality of the data will increase its value and the companies working well will be better appreciated after all. The users who will encourage this upgrade of the EFI, controlling, selecting and presenting data in the proper financial standard, will help a lot the cause. It is high time for promoting the rationalization and the automatization of EFI in order to improve the economic use into decision-making, instead of multiplying the initiatives.

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This scenario will occur as soon as companies no longer accept to spend time and resources to provide each canal which pretends to serve the future of sustainability. Companies must stop to comply with this context. They have to take their responsibility, make choices and have an **EFI strategy, relying on three pillars:**

- **transparency on their main impacts**
- **quality and relevance of data for the use of analysts**
- **cooperation with the users to improve their production by the dialogue.**

They will not succeed alone, considering the task and the competition. They need advisors and services to help them structure this new "integrated information".

A new cycle finishes: the time when companies tried to establish a generous and empathic attitude on sustainability by delivering an amount of uncontrolled figures among an infinite list of good practices is over.

A new cycle begins: the time when inspired companies consider seriously the production of their extra financial information for relevant use on the market, and ask the support of helpful experts to take in charge this process. Companies have realized that reporting and producing a true economic image of the sustainable evolution of their model is useful enough to be done by experts, in close relations with users. And that it will force the users to be more consistent in their requests and their methods. The extra financial information business is entering in a decisive period.

Patrick d'Humières

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Appendixes

1. Key insights from SustainAbility's multi-stakeholder initiative "Rate the Raters"

Rate the Rater brought transparency on the raters' practices globally. Here are the highlights

- Raters' heterogeneity is confusing for issuers
  - The criteria and their weightings differ a lot among raters. For instance some assess the companies' CSR performance (ESG criteria) while some assess the viability of the business model of the company with regard to sustainability trends
  - Benchmarking is complicated when sectors and activities vary much
  - Hence the presence in the ratings of highly controversial companies such as Halliburton, Tepco ou BP
  - As long as rating agencies fail to make their business model viable they will try to diversify their incomes by selling their research to the rated companies, which may harm their objectivity and their credibility
- Facts from the study and the surveys :
  - 21 sustainability rating agencies & rankings in 2000 vs 108 in 2011
  - A third of the ratings are based only on public information, another third only on information submitted by the issuer (response to questionnaire) and the last third of the ratings are based on public and submitted information. That means that in two third of the cases, it causes harm to the issuer if it fails to answer to the questionnaires
  - 50 % of the ratings assess both sustainability performance and transparency. A third are based on performance only, 10 % on the opinion of a panel and 7 % on transparency only
  - Rating agencies are the 3rd most credible actor to assess a company's sustainability performance, behind NGOs and employees. SAM's DJSI is the most credible, ahead CDP Leadership and EIRIS's FTSE4GOOD. SustainAbility surveyed a panel of 1,000 multi stakeholders (CSR officers, ESG analysts, consultants, NGOs, academics) from 80 countries in Europe, North America and Asia.
- Recommendations for raters :
  - Increase transparency on the methodology and the value added brought by the ranking for the issuers
  - ease off the issuers' load when they make their sustainability data public by incorporating directly the public information in the questionnaire
  - focus the analysis on the key issues and on the most relevant data instead of striving for increasing the coverage (for instance in terms of data points –which can range from 25 to 700)
  - meet the companies and their stakeholders to confront the draft of the analysis
  - clarify very precisely if they sell services or products (sector reports, benchmarking reports…) to the companies they rate
  - make the analysis more forward-looking and not mainly retrospective

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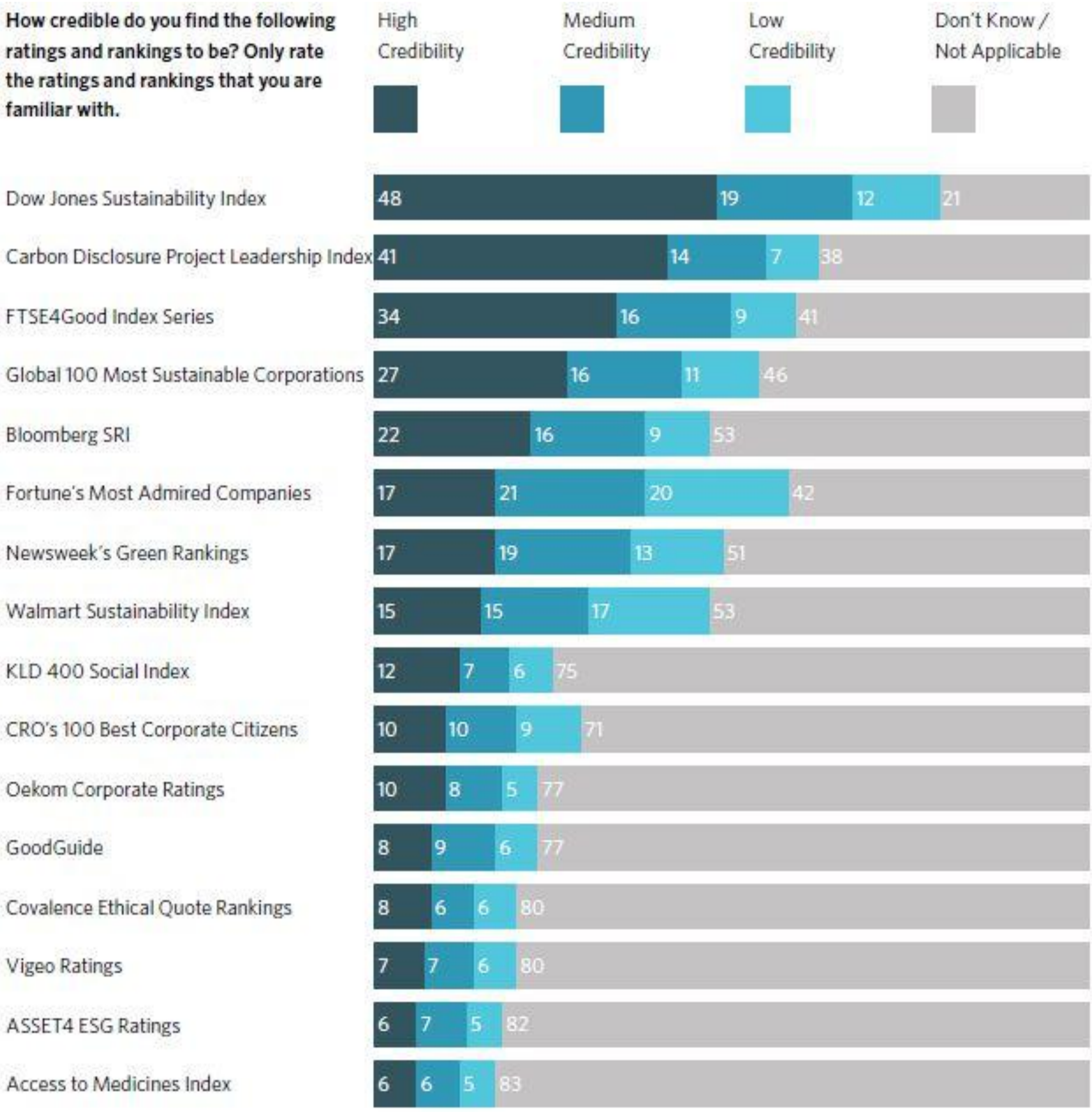

To access the 4 very rich reports issued by Rate the Raters

- phase 1: http://www.sustainability.com/library/rate-the-raters-phase-one
- phase 2: http://www.sustainability.com/library/rate-the-raters-phase-two
- phase 3: http://www.sustainability.com/library/rate-the-raters-phase-three
- phase 4: http://www.sustainability.com/library/rate-the-raters-phase-four

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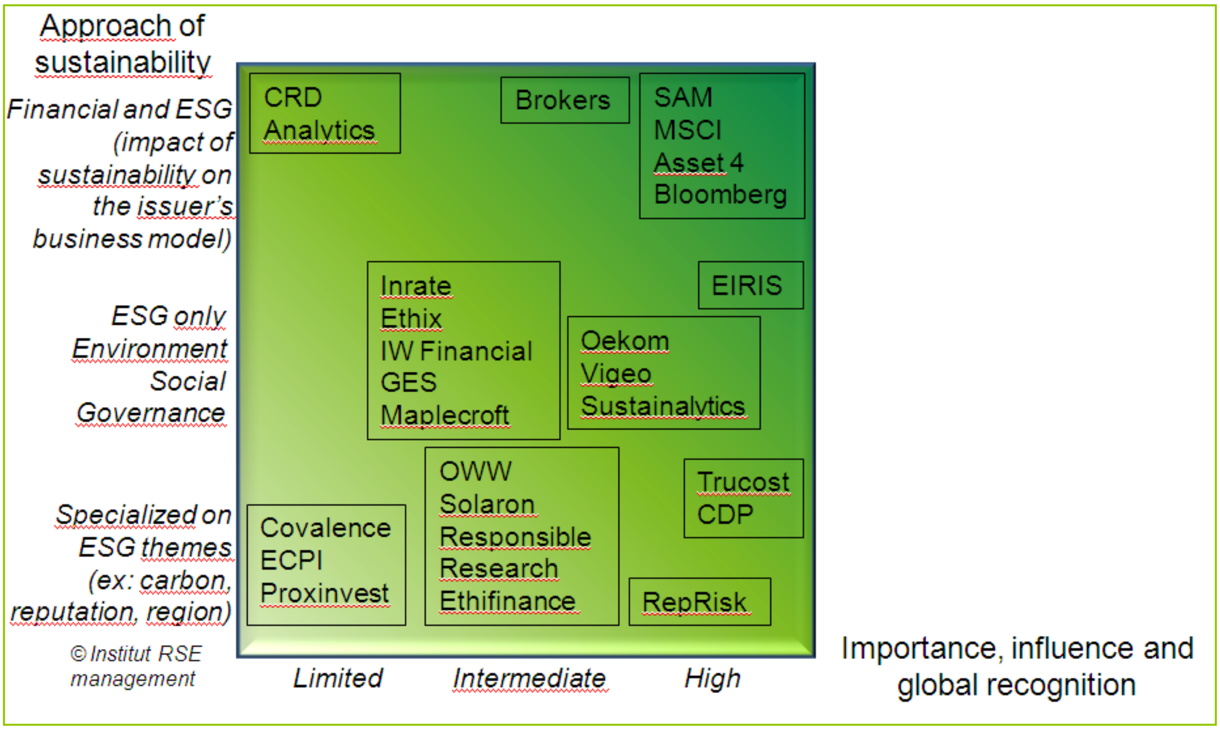
2. Position of the main actors on the market of extra-financial information data providing and rating



NB: SAM is an asset manager, but publishes the results of its analysis (DJSI)

NB 2: Due to lack of information, brokers and sell-side teams are not mapped individually

This is a non-exhaustive mapping of the main actors of extra-financial information data providing and rating. This work was made to help issuers target the right actors when answering to questionnaires.

The importance, the influence and the global recognition has been established based on the following criteria:

- **Number of analysts (source: Novethic study, September 2011[5])**
- **The recognition is based on the results of Rate the Raters' poll (see appendix 1) and the penetration rate of rating agencies among French SRI investors (source: Novethic)**
- **Economic weight: number of clients, licenses, sales – when the rating agency partners with an index provider**
- **Partnerships and publications with academics**

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[5] Novethic, September 2011, « Panorama des agencies de notation extra-financière » (« Overview of the extra-financial rating agencies », in French)
http://www.novethic.fr/novethic/upload/etudes/20111115_Panorama_Agences_Notation_extra-financiere.pdf

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3. Conclusions of the G4 Public comment period

These figures and comments come from GRI's conclusion

For broader insight on the G4 please visit

- The full report: https://www.globalreporting.org/resourcelibrary/G4-PCP1-Full-Report.pdf
- G4's dedicated page on GRI's website https://www.globalreporting.org/reporting/latest-guidelines/g4-developments/Pages/default.aspx

GRI highlights 5 priorities for the development of the G4:

- to offer guidance in a user-friendly way, so that beginners can easily understand and use the Guidelines
- to improve the technical quality of the Guidelines' content in order to better support reporting organizations when preparing the report information and information users when using it
- to align with other international disclosure standards and relevant metrics
- to improve guidance on identifying "material" content – from different stakeholders perspective – to be included in the sustainability reports
- to offer guidance on how to link the sustainability reporting process to the preparation of Integrated Report aligned with the guidance to be developed by International Integrated reporting Council (IIRC)

The key objectives of extra-financial reporting stated by the panel acknowledge that reporting is first and foremost a matter of transparency and external engagement and less an issue of internal performance:

- provide transparency on risks, opportunities, performance and impacts to a range
- of stakeholders (70%)
- engage with and establish trust with stakeholders (62% and 67%)
- manage reputation (53%)
- improve their own performance (45%)

The 5 most popular topics for inclusion in the G4 guidelines also refer to environmental issues and environmental management tools:

- Business Ethics 66 %
- Greenhouse Gas Emissions 54 %
- Eco-innovation 44 %
- Life Cycle Assessment (LCA) 44 %
- Water 41 %

The integrated report will dethrone the sustainability report as the most relevant format for sustainability information in the near future

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Table 9. (Q9) Relevant reporting formats, today and in the near future [16]

	Today	3 years	10 years
N=		732	
		%	
Regulatory filing	29	21	22
Sustainability report	76	42	20
Integrated report	22	58	65
Topic-specific report	14	16	14
Investor summary	17	17	12
Other stakeholder-specific report	11	18	19
Web based disclosures	37	44	42
Don't know	1	2	8

* Percentages total greater than 100% as respondents were allowed to choose multiple options

Other important observations

- The panel confirms that external bodies such as GRI are those who should set up the topics to be reported (51 %, against 39 % for the reporting organization)
- Sector-specific standards (58 %) are highly preferred to non-sectoral standards (22 %)
- On average, between 60 and 66 % of the respondents are satisfied with the performance indicators and think it should not be modified in the G4

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4. Key metrics of interest to ESG researchers, investors and corporate decision markers – from IRRC Institute, Soyka and Segue Point LLC's study «Finding Common Ground on the Metrics that Matter»

http://www.irrcinstitute.org/pdf/IRRC-Metrics-that-Matter-Report_Feb-2012.pdf

Exhibit 24
Overlap of Key Metrics of Interest to ESG Researchers/Investors and Corporate Decision Makers

E&S Issue	ESG Researchers Evaluating the Issue (of 14)	Percentage of NAEM Survey Companies Tracking the Issue	Metric as Defined in NAEM Survey
Climate Change	13	88%	GHG Emissions
Diversity Issues	12	81%	Employee Diversity
Employee Health and Safety	11	100%	Lost Day Injuries
Energy Use/Efficiency	10	93%	Energy Use
Environmental Management	10	81%	EHS Management Systems
Product Issues	9	50%	Product Compliance with Customer Requirements
Philanthropy	9	86%	Philanthropy/Charitable Causes
Environment Emissions (non Climate Change)	8	69%	TRI Emissions
Supply Chain	8	58%	Supply Chain Performance
Water Use/Stress	7	86%	Water Use
Environmental Fines/Compliance	7	96%	Fines and Penalties
Environmental Liabilities	5	80%	Environmental Remediation Costs
Renewable Energy	5	63%	Renewable Energy Use
Waste Production/Reduction	5	88%	Non-Hazardous Waste
Community Involvement	5	66%	Community Investment
Resource Management and Use	5	42%	Raw material use
Recycling	4	68%	Resource Conservation/ Recovery (paper)
Workplace	4	36%	Ergonomics Projects/Initiatives
Environmental Spills	4	84%	Spills and Releases
Stakeholder Engagement	4	44%	Stakeholder Engagement
Training	3	82%	Employee Training
Environmental Product Design	2	50%	Product Innovations or Sustainability-related Services
E-Waste	1	43%	End-of-Life Electronics
Opportunities in Environmental Technology	1	37%	Sustainability-related Research and Development
Opportunities in Green Building	1	49%	Investments in EHS/Sustainability-related Capital Improvements
Packaging Material and Waste	1	47%	Resource Conservation/ Recovery (packaging)
Product Ingredients	1	42%	Raw material Use
Customer Management	1	27%	Customer/Consumer Education

Source: IRRC Institute, Soyka and Segue Point LLC's study «Finding Common Ground on the Metrics that Matter», February 20

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GIVING VALUE TO EXTRA-FINANCIAL INFORMATION

How to bridge the gap between issuers and users of CSR data in growing complexity?

by Divya MUZUMDAR & the IRSE Consultant Team

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