

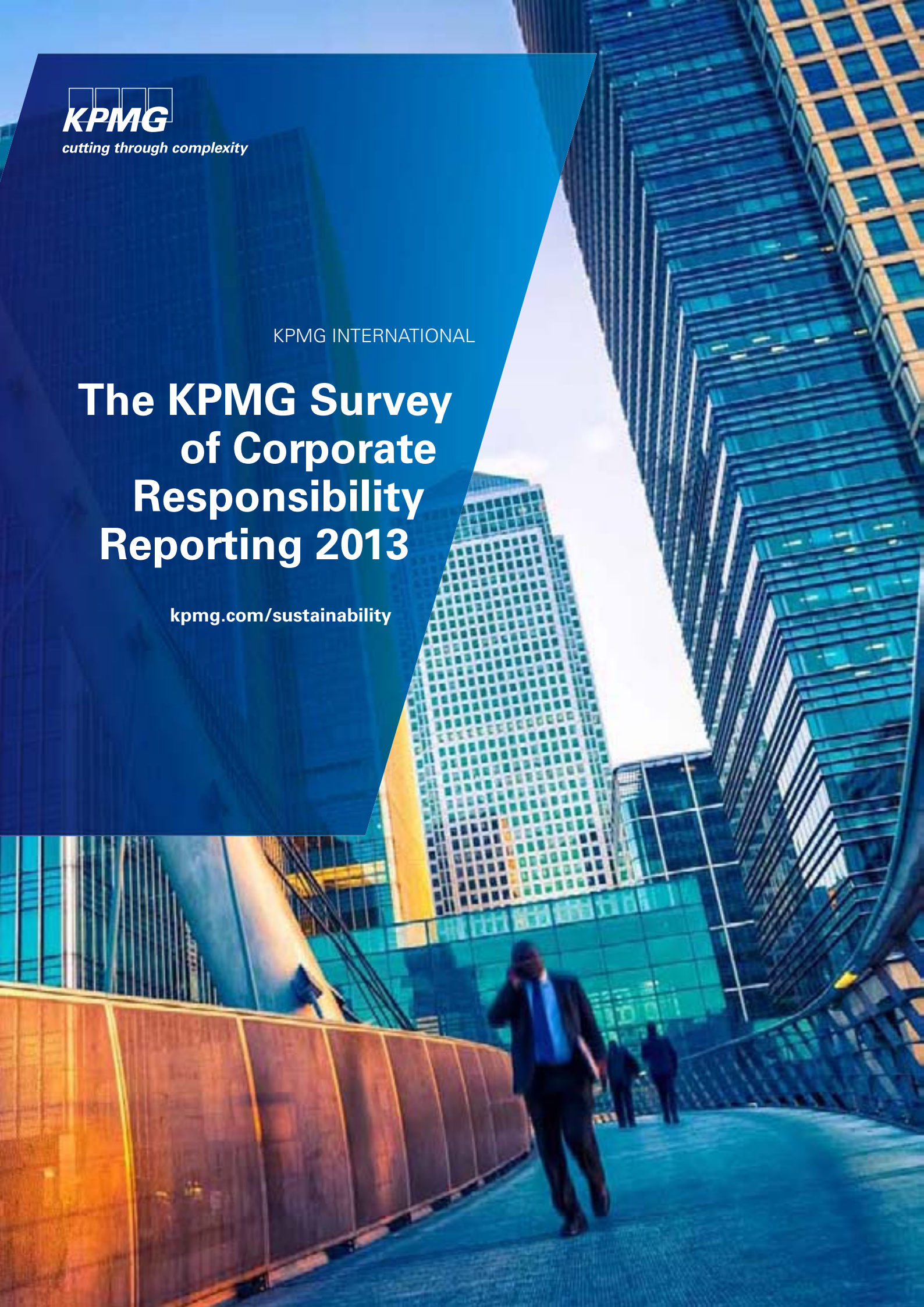


*cutting through complexity*

KPMG INTERNATIONAL

# The KPMG Survey of Corporate Responsibility Reporting 2013

[kpmg.com/sustainability](http://kpmg.com/sustainability)



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# About this survey

## Welcome to the KPMG Survey of Corporate Responsibility Reporting 2013.

KPMG's survey is published primarily for business leaders, company boards and corporate responsibility (CR) and sustainability professionals. It provides a snapshot of current global trends in CR reporting with benchmarks, guidance and insights to help companies worldwide determine their own approaches to CR reporting and to assess and improve the quality of their reports.

The survey is also intended to provide a useful reflection of the current state of CR reporting for other audiences who take an interest in the subject. These include investors, asset managers and ratings agencies, many of whom are increasingly factoring environmental, social and governance information into their assessments of corporate performance.

Corporate stakeholders, including NGOs, customers, academics and students, and policy makers should also find useful information and food for thought in these pages.

This is the eighth edition of the KPMG Survey of Corporate Responsibility Reporting and marks 20 years since the first survey was published in 1993. This year the research is more broad-ranging than ever, covering 4,100 companies across 41 countries (the last survey in 2011 looked at 3,400 companies in 34 countries).

The growth in the number of countries and companies covered in this survey is just one indication of how CR reporting has evolved into a mainstream business practice over the last two decades.

The format of this survey has changed to reflect that evolution. The results are now presented in two parts:

### Part 1:

#### **Global trends in CR reporting: a view across 41 countries (page 18)**

This section looks at the 100 largest companies by revenue in 41 countries to explore how many companies are producing CR reports and other issues, such as the drivers for reporting, sector variances, and the use of standards and assurance for CR reports.

### Part 2:

#### **The quality of reporting among the world's largest companies (page 34)**

This section looks specifically at the world's largest 250 companies. It assesses the quality of their CR reports, identifies leaders and uses these examples to offer guidance and insights.

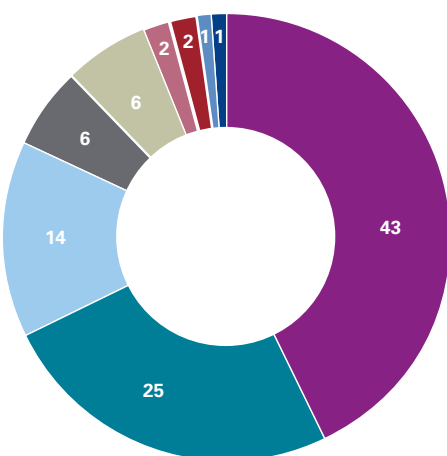


# Methodology

## Scope of this report

The survey is based on a detailed study of company reporting on CR performance, carried out by KPMG member firms' professionals and based on publicly available information in annual financial reports, stand-alone CR reports and on company websites. It includes information provided in both PDF and printed reports as well as in web-only content. Reports published between mid-2012 and mid-2013 were sought in the first instance. If a company did not report during this period, information from 2011 was used. Information relating to periods prior to 2011 was not included in this survey. The findings are based on analysis of publicly available information only, and not on information submitted by companies to KPMG member firms.

**Figure 1:**  
Reporting terminology used by N100



- Sustainability
- Corporate social responsibility (CSR)
- Corporate responsibility (CR)
- Sustainable development
- Other
- Corporate citizenship
- Environmental and social report
- People, planet, profit
- Corporate responsibility & sustainability

Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

## A note on terminology: 'corporate responsibility' versus 'sustainability'

Terminology used for reporting varies between companies. Research conducted for this survey shows the most commonly used terms globally are 'corporate responsibility' (14 percent) or 'corporate social responsibility' (25 percent) and 'sustainability' report (43 percent). Reporting under these and other terms was included in this survey. The use of the term 'corporate responsibility/CR' in this document should therefore be taken to also cover the term 'sustainability' and other similar terms.

## N100 research

The first part of this report assesses CR reporting among the 100 largest companies in 41 countries: 4,100 companies in total. These are referred to as the "N100" companies. KPMG member firms identified the N100 in their country by revenue based on a recognized national source or, where a ranking was not available or was incomplete, by market capitalization or other sector-appropriate measures.

N100 companies include both publicly-listed companies and those with different ownership structures such as privately-owned and state-owned businesses. Nine new countries joined the survey this year (see chart below), while two countries included in 2011 are not part of the 2013 survey (Bulgaria and Ukraine).

KPMG analysts collected data on the following criteria for the N100:

- number of companies publishing CR information in stand-alone reports and annual reports by country and sector
- format and integration of CR reporting
- use of reporting guidelines and standards
- rate and type of verification of CR information, assurance provider and data restatements.

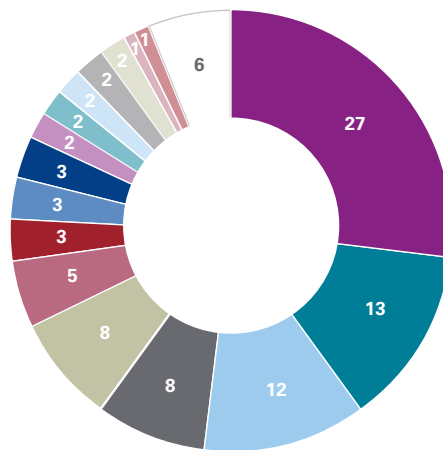
The countries included in the 2013 research were:

Americas	Asia Pacific	Europe	Middle East & Africa
Brazil	Australia	▶ Belgium	▶ Poland
Canada	China (incl. Hong Kong)	Denmark	Portugal
Chile	India	Finland	Romania
▶ Colombia	▶ Indonesia	France	Russia
Mexico	Japan	Germany	Slovakia
US	▶ Kazakhstan	Greece	Spain
	▶ Malaysia	Hungary	Sweden
	New Zealand	Italy	Switzerland
	Singapore	Netherlands	UK
	South Korea	▶ Norway	
	Taiwan		

▶ **New countries added to the survey in 2013**

Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

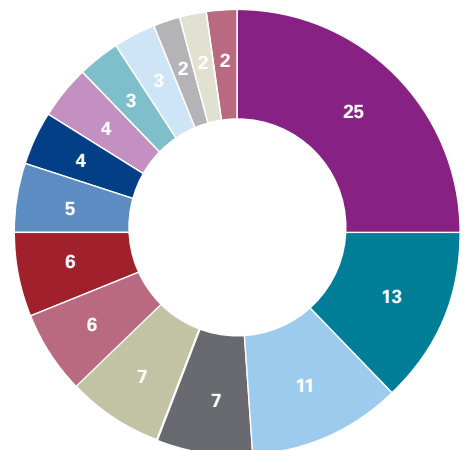
**Figure 2:**  
G250 companies by location of headquarters (%)



- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>■ USA</li> <li>■ Japan</li> <li>■ China</li> <li>■ France</li> <li>■ Germany</li> <li>■ UK</li> <li>■ Switzerland</li> <li>■ Italy</li> <li>■ Spain</li> <li>■ Netherlands</li> <li>■ South Korea</li> <li>■ Australia</li> <li>■ Brazil</li> <li>■ India</li> <li>■ Russia</li> <li>■ Mexico</li> </ul> | <p><b>Other:</b></p> <ul style="list-style-type: none"> <li>□ Malaysia</li> <li>□ Austria</li> <li>□ Thailand</li> <li>□ Finland</li> <li>□ Norway</li> <li>□ Saudi Arabia</li> <li>□ Taiwan</li> <li>□ Singapore</li> <li>□ Turkey</li> <li>□ Canada</li> <li>□ Denmark</li> <li>□ Luxembourg</li> <li>□ Sweden</li> <li>□ Venezuela</li> </ul> |
|---|--|

Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

**Figure 3:**  
G250 companies by industry sector (%)



- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>■ Finance, insurance &amp; securities</li> <li>■ Oil &amp; gas</li> <li>■ Trade &amp; retail</li> <li>■ Automotive</li> <li>■ Electronics &amp; computers</li> <li>■ Communications &amp; media</li> <li>■ Utilities</li> <li>■ Metals, engineering &amp; manufacturing</li> </ul> | <ul style="list-style-type: none"> <li>■ Construction &amp; building materials</li> <li>■ Food &amp; beverage</li> <li>■ Pharmaceuticals</li> <li>■ Other services</li> <li>■ Mining</li> <li>■ Transport</li> <li>■ Chemicals &amp; synthetics</li> </ul> |
|---|--|

Companies included under 'other services' include entertainment, healthcare, resorts, mail, package and freight delivery. The number of companies in each of these sectors represent less than 1 percent of the G250.

Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

## G250 research

The second part of this survey assesses the quality of reporting among the world's largest 250 global companies.

These were identified as the top 250 companies listed in the Fortune Global 500 ranking for 2012. In this survey they are referred to as "the G250" companies. They operate in 14 industry sectors and are headquartered in 30 different countries.

KPMG analysts sought to assess the quality of CR reporting by the G250 against seven key criteria, which are based on current reporting guidelines and KPMG professionals' view of leading reporting practices.

- **Strategy, risk and opportunity**
  - reporting should include a clear assessment of the CR risks and opportunities a business faces and should explain the actions it is taking in response.
- **Materiality** – CR reports should demonstrate that a company has identified the CR issues with the greatest potential impacts both on the business itself and its stakeholders. Companies should make clear the process they have used to assess materiality, how they have involved stakeholders in this process, and how they have used the materiality assessment to inform
- **Targets and indicators** – companies should use meaningful (e.g. timebound and measurable) targets and key performance indicators to measure progress, and clearly report their progress and performance on set targets and objectives.
- **Suppliers and the value chain**
  - CR reports should explain the social and environmental impacts of the company's supply chain, as well as the downstream impact of products and services, and show how the company is managing those impacts.
- **Stakeholder engagement**
  - companies should identify stakeholders in their CR reports, explain the process used to engage with stakeholders, and the actions taken in response to their feedback.
- **Governance of CR** – reports should make clear how CR is governed within a company, who has responsibility for the company's CR performance and how the company links CR performance to remuneration.
- **Transparency and balance**
  - CR reports should be balanced and include information on challenges and setbacks as well as achievements.

their reporting and management of CR risks and opportunities.

On the basis of KPMG's analysis, scores were attributed to each of the G250 companies to reflect how well their CR reports satisfied the criteria listed above. Answers for the criteria were weighted to produce an overall score out of 100, with greatest weight given to strategy, risk and opportunity, materiality, targets and indicators and stakeholder engagement, to reflect the relative importance of these criteria in achieving high-quality reports.

As a result, a cluster of 10 leading companies was identified (each of which scored 90 out of 100, or more) as well as the highest scoring company in each of the 14 industry sectors represented in the G250.

Senior executives from 14 of these top-scoring companies were interviewed to discover more about how they approach CR reporting. The lessons learned are outlined on page 39 of this survey.





# Corporate responsibility reporting: is it really worth it?

Let us be honest, corporate responsibility (CR) reporting is not without its critics.

Some people say these reports are a waste of time and money, believing them to be so dense and so dull that no one could possibly bother to read them. Others see them as vehicles for corporate greenwash, an opportunity for companies to exaggerate their social and environmental credentials without any genuine intention to change.

Some in the corporate world see the production of these reports as too complex and too costly and with dubious return-on-investment.

While I understand the concerns behind accusations like these, I think such views are fortunately fast becoming outdated.

Yes, CR reports are often not an easy read and companies should seek to communicate the information in more digestible and engaging ways. However, that is not an argument for not reporting at all.

Yes, greenwash can be a risk but as time goes on, stakeholders - from NGOs and pressure groups to customers and investors - are all becoming more adept at knowing the difference between PR spin and CR performance. It is not so easy to pull the proverbial wool over people's eyes anymore.

Yes, CR reporting done properly does require financial and human resources, but so do all forms of corporate reporting.

The point that is being missed by many people who make these criticisms is that, in the 21st century, CR reporting is – or should be - an essential business management tool. It is not – or should not be - something produced simply to mollify potential critics and polish the corporate halo.

We are all living, and some of us are running businesses, in a world undergoing unprecedented environmental and social changes. Rampant population growth is fuelling ever-increasing demands for limited resources. Unpredictable extreme weather is affecting supplies of key commodities. Changing social conditions and expectations are driving both increased spending power and social unrest.

CR reporting is the means by which a business can understand both its exposure to the risks of these changes and its potential to profit from the new commercial opportunities. CR reporting is the process by which a company can gather and analyze the data it needs to create long term value and resilience to environmental and social change. CR reporting is essential to convince investors that your business has a future beyond the next quarter or the next year.

What encourages me most about the findings of this year's KPMG Survey of Corporate Responsibility Reporting are the signs that many of the world's largest companies are using the process of CR reporting to bring CR and sustainability right to the heart of their business strategy, where it belongs.

Almost all the world's largest 250 companies report on CR. Of those that do, nine in 10 use their reports to identify environmental and social changes that impact the business and its stakeholders. Eight in 10 report that they have a strategy to manage the risks and opportunities. Seven in 10 report that these changes bring opportunities for the innovation of new products and services. An enlightened, but I suspect growing, minority of around one third also report opportunities to grow their market share and cut costs.

Where these companies lead, others will follow. The direction of travel is clear.

I believe that the debate on whether companies should report on CR or not is dead and buried. As this survey finds, CR reporting appears to be standard business practice the world over - even in those geographic regions and industry sectors that only two years ago lagged behind.

The questions companies should ask themselves now, and which we have endeavored to answer in this publication, are "what should we report on?" and "how should we report it?" And, most importantly, "how can we best use the process of reporting to generate maximum value both for our shareholders and for our other stakeholders?"



**Yvo de Boer**  
KPMG's Global  
Chairman,  
Climate Change &  
Sustainability Services

# Key findings

## Global trends in CR reporting

### CR reporting sees exceptional growth in emerging economies

- There has been a dramatic increase in CR reporting rates in Asia Pacific over the last two years. Almost three quarters (71 percent) of companies based in Asia Pacific now publish CR reports – an increase of 22 percentage points since 2011 when less than half (49 percent) did so.
- The Americas has now overtaken Europe as the leading CR reporting region, largely due to an increase in CR reporting in Latin America. Seventy six percent of companies in the Americas now report on CR, 73 percent in Europe and 71 percent in Asia Pacific.

- The highest growth in CR reporting since 2011 has been seen in: India (+53 percentage points), Chile (+46), Singapore (+37), Australia (+25), Taiwan (+19) and China (+16).
- CR reporting is now undeniably a mainstream business practice worldwide, undertaken by almost three quarters (71 percent) of the 4,100 companies surveyed in 2013. This global CR reporting rate is an increase of 7 percentage points since 2011 when less than two thirds (64 percent) of the companies surveyed issued CR reports.
- Among the world's largest 250 companies, the CR reporting rate is more or less stable at 93 percent.

### A narrowing gap between leading and lagging industry sectors

- In all sectors more than half of companies report on CR, meaning reporting can be considered standard global practice irrespective of industry. Two years ago less than half of the sectors had reporting rates above 50 percent. At the same time, the gap between the highest scoring and lowest scoring sector has now narrowed to 22 percentage points.
- Some sectors have taken big steps over the past years. The automotive and telecommunications & media sectors now have some of the highest levels of CR reporting (77 percent and 75 percent, respectively), whereas five years ago, in 2008, their CR reporting rates were among the lowest (49 percent and 47 percent).

#### KPMG VIEW

### To report or not to report? The debate is over

Companies should no longer ask whether or not they should publish a CR report. We believe that debate is over. The high rates of CR reporting in all regions suggest it is now standard business practice worldwide. The leaders of N100 or G250 companies that still do not publish CR reports should ask themselves whether it benefits them to continue swimming against the tide or whether it puts them at risk.

The important questions now are “what?” and “how?” – or, in other words, it is now about the quality of CR reporting and the best means to reach relevant audiences. This includes assessing what is material for the business, proper engagement with stakeholders, having an honest communication strategy including openness about challenges and putting in place the underlying processes to gather and check data.

### CR information in the annual report: now standard practice

- Over half of reporting companies worldwide (51 percent) now include CR information in their annual financial reports. This is a striking rise since 2011 (when only 20 percent did so) and 2008 (only 9 percent). The direction of travel is clear and with more than half of companies researched now including CR data in their financial reports, this can arguably be considered as standard global practice.

- However, including CR information in the annual report does not imply that companies have embraced the trend of integrated reporting (IR): only one in 10 companies that report on CR claims to publish an integrated report.

#### **Use of Global Reporting Initiative (GRI) guidelines is almost universal**

- Seventy eight percent of reporting companies worldwide refer to the GRI reporting guidelines in their CR reports, a rise of 9 percentage points since the 2011 survey (over 90 percent do so in South Korea, South Africa, Portugal, Chile, Brazil and Sweden).
- Among the world's 250 largest companies the rate is even higher than the N100: 82 percent of G250 companies that report on CR refer to the GRI guidelines as opposed to 78 percent in 2011.

#### **Assurance among the largest companies has reached a tipping point**

- Over half (59 percent) of the G250 companies that report CR data now invest in external assurance. This is up from 46 percent in 2011.
- Two thirds of those companies that invest in assurance choose to engage a major accountancy firm.

#### KPMG VIEW

## **Boards should get behind integrated reporting (IR)**

Based on member firms' experiences and research there seems to be acceptance of IR as the next destination for corporate reporting, but few companies are doing it yet. There is also some nervousness around whether IR could limit rather than enhance communication around CR and sustainability, specifically for non-financial stakeholder groups.

IR can be the catalyst for integrated management. KPMG's experience in South Africa, where IR is now mandatory, shows that the close involvement of CEOs and other board members is essential to reach 'one view' of the business, consensus on one set of material issues and one combined business strategy. With an integrated approach to value creation as the end objective, board support for IR needs to scale up.

#### KPMG VIEW

## **Assurance is no longer just an option**

Just as CR reporting itself is now a standard business practice; it is also becoming standard practice to have CR and sustainability data externally assured. The tipping point has been crossed, with over half the world's largest companies (G250) now investing in assurance. As can be seen with other trends in CR reporting, the largest companies tend to set the direction that other corporations follow.

Many companies now face significant pressure to give stakeholders confidence in what they say and assurance can help provide this credibility. The question for leaders is therefore no longer "should we assure our CR data?" rather "why would we not?" and "how do we choose the appropriate assurance option that meets stakeholders' needs and puts us ahead of our peers?"

# The quality of reporting among the world's largest companies

## Attention must be paid to reporting on the value chain

- In KPMG's analysis, the average quality score achieved by G250 companies for their CR reports is 59 out of a possible 100. This indicates significant room for improvement overall.
- Reporting on targets and indicators is most well-developed to date, with an average score of 68 out of 100. Large companies also appear to be reporting on materiality and strategy, at an average score of 66 and 62.
- A key area for improvement is reporting on suppliers and the value chain, where average G250 reporting quality was assessed at 46 out of 100, followed closely by stakeholder engagement and governance, both at an average score of 53 out of 100.

## European companies serve as an example for other regions

- Around one quarter of the G250 (63 companies) score higher than 80 out of 100 across the quality criteria, and 10 companies score higher than 90. These companies are located in Europe and the US.
- European G250 companies achieve the highest average quality score for their CR reports at 71 out of 100. This compares with average scores of 54 for companies in the Americas and 50 in Asia Pacific.
- Within Europe, companies in Italy (85), Spain (79) and the UK (76) score most highly.

**Table 1:**  
10 G250 companies score more than 90 out of 100 for CR reporting quality:

Company	Country	Sector
A.P. Møller Mærsk	Denmark	Transport
BMW	Germany	Automotive
Cisco Systems	US	Telecommunications & media
Ford Motor Company	US	Automotive
Hewlett-Packard	US	Electronics & computers
ING	Netherlands	Finance, insurance & securities
Nestlé	Switzerland	Food & beverage
Repsol	Spain	Oil & gas
Siemens	Germany	Electronics & computers
Total	France	Oil & gas

Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

## Industries with high CR impacts show trailing scores

- Large companies in the electronics & computers, mining and pharmaceuticals sectors produce the highest quality CR reports. Their average scores are 75, 70 and 70 respectively.
- However some sectors that face significant CR risks and opportunities, and have significant potential social and environmental impacts, are publishing reports with scores below the global average. The oil & gas, trade & retail, metals, engineering & manufacturing and construction & building materials sectors have average scores of 55, 55, 48 and 46 out of 100, respectively.

## Opportunities overtake risks

- Most G250 CR reports (87 percent) identify at least some social and environmental changes (or 'megaforges') that affect the business. Climate change, material resource scarcity and energy and fuel are the most commonly mentioned.
- More companies see opportunities than risks: 81 percent of reporting companies identify business risks from social and environmental factors, whereas slightly more (87 percent) identify commercial opportunities.
- The most commonly cited opportunity of social and environmental change is innovation of new

products and services, mentioned by 72 percent of reporting G250 companies. The opportunity to strengthen brands and corporate reputation is the next most commonly cited (mentioned by 51 percent of reporting companies), followed by improving market position/growing market share (36 percent) and cutting costs (30 percent).

- Only one in 10 reporting companies (12 percent) identifies improved access to capital or improved shareholder value as an opportunity of social and environmental change.
- Reputational risk is the most commonly cited type of business risk, mentioned by 53 percent of reporting G250 companies.
- Only a small number of G250 CR reports (5 percent) include information on the financial value at stake through environmental and social risk.
- A significant number of reporting companies also mention other types of risk that affect company operations and not just corporate reputations:

#### KPMG VIEW

## Risk and opportunity needs to be linked to value

Many companies no longer see corporate responsibility as a moral issue, but as core business risks and opportunities. More and more investors accept that environmental and social factors put company value at stake. This leads to the question of what the potential financial impacts of those risks and opportunities could be and what the company is doing to mitigate or maximize them.

Very few companies are yet declaring any quantified risks to the bottom line in their CR reporting. Companies need to be prepared for this to change and should start to integrate the top and bottom-line implications in their business scenario planning and risk management.

- regulatory risk (48 percent), competitive risk (45 percent), physical risk (38 percent), social risks (36 percent) and legal risks (21 percent).<sup>1</sup>
- The Americas is the only region where competitive and regulatory risks are mentioned more often in G250 CR reports than reputational risks.
- Most reporting companies in the G250 (83 percent) state in their reports that they have a CR strategy. Companies in the Americas are most likely not to refer to strategy: three in 10 do not.

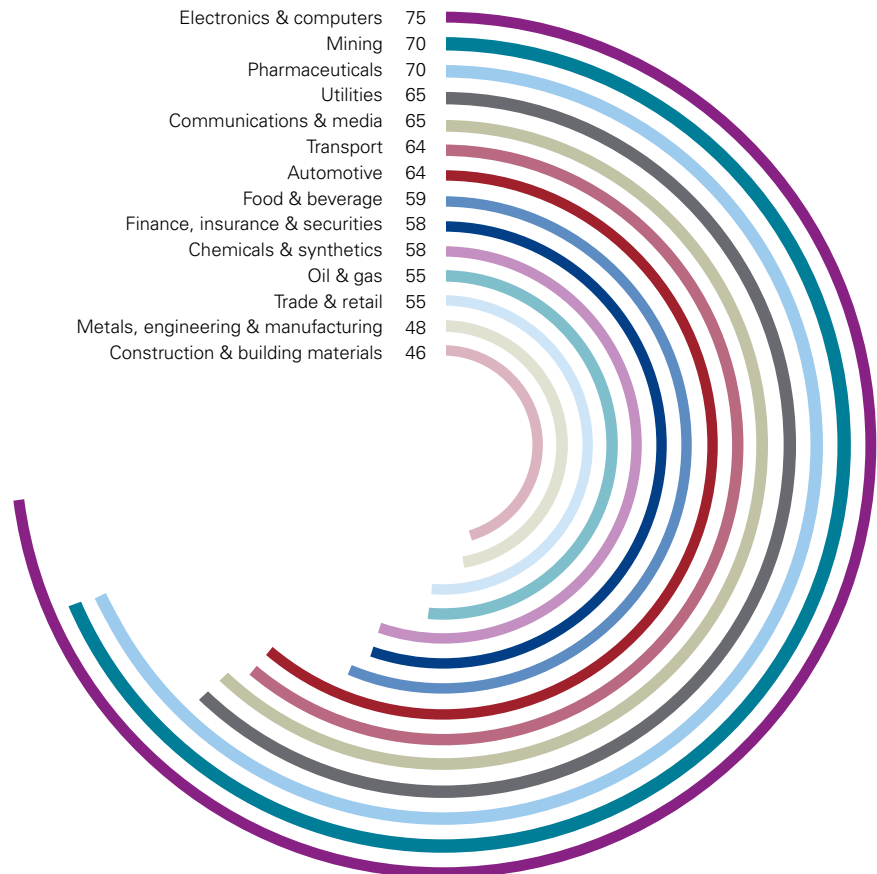


<sup>1</sup> See page 48 for a definition of different types of risks

# The quality of reporting among the world's largest companies

**Figure 4:**  
**Average quality of G250 reports by sector**  
(Score out of a possible 100)

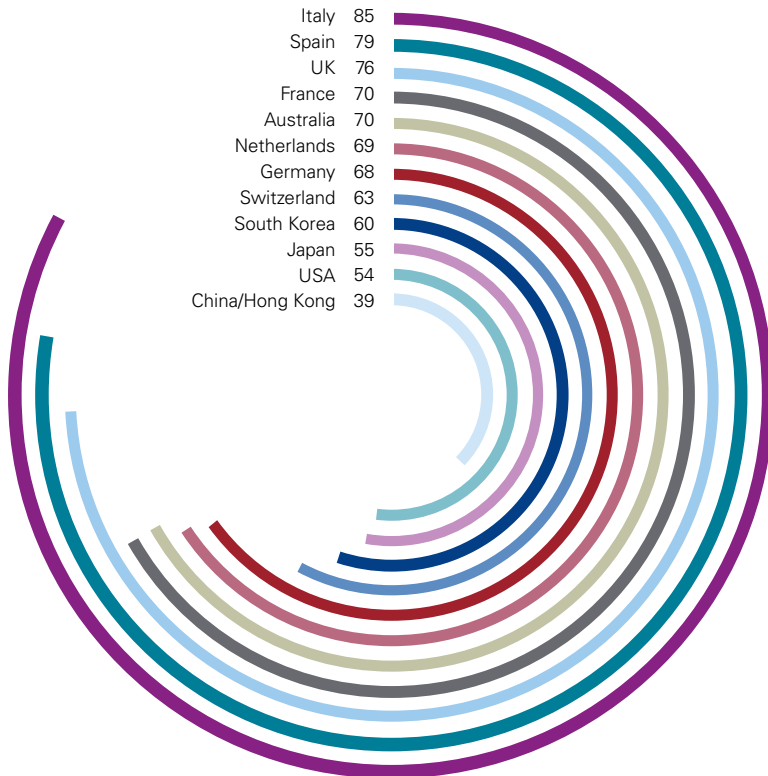
- Large companies in the electronics & computers, mining and pharmaceuticals sectors produce the highest quality CR reports.



Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

**Figure 5:**  
**Average quality of G250 reports by country<sup>2</sup>**  
 (Score out of a possible 100)

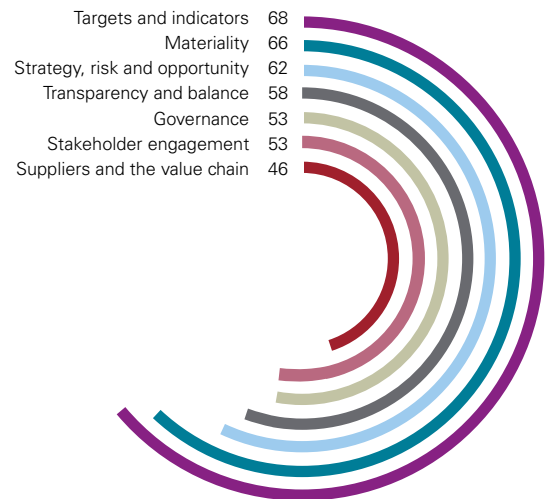
- Large companies in Italy, Spain and the UK lead the world for the quality of CR reports.
- European G250 companies achieve the highest average quality score for their CR reports at 68 out of 100. This compares with average scores of 51 for companies in the Americas and 48 in Asia Pacific.



Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

**Figure 6:**  
**Average quality of G250 reports by criterion**  
 (Score out of a possible 100)

- G250 companies as a whole score most highly for targets and indicators. The greatest improvement needs to be made in reporting on suppliers and the value chain.



Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

<sup>2</sup> Average scores per country are only given for those countries that have five or more companies reporting on CR in the G250.





### More transparency needed on materiality process

- Over three quarters (79 percent) of G250 companies that issue CR reports, discuss the identification of CR issues that are material to their business and stakeholders.
- There is room for improvement in terms of transparency on the process used for identifying material issues. 41 percent of the reporting companies do not explain the process they use and only a small minority (5 percent) assess material issues on an ongoing basis.

### Targets and indicators are not yet fully defined

- One in eight reporting G250 companies (13 percent) reports no CR targets at all and a quarter (26 percent) do not relate their CR targets to material issues.

### Reporting on suppliers and the value chain is lacking in sectors at risk

- Companies in the chemicals & synthetics sector are the least likely to report on supply chain issues. Sixty percent of G250 companies in this sector that report on CR do not report on the supply chain. Companies in the electronics & computers sector are the most likely to do so.
- G250 companies in Europe are the most likely to discuss in detail the environmental and social impacts of their products and services. Almost three quarters (73 percent) of reporting companies in Europe do so with a further 23 percent providing limited information. In the Americas, less than half (49 percent) provide detailed information on downstream impacts and the figure drops to less than one third (32 percent) in Asia Pacific.

### Companies in the Americas and Asia Pacific struggle to explain stakeholder engagement process

- G250 companies in Asia Pacific and the Americas lag behind those in Europe for explaining the process used to engage stakeholders. Four in 10 companies in these regions offer no explanation at all.
- The mining and metals, engineering & manufacturing sectors score highest for identifying key stakeholders in their reports.
- Only one third of G250 companies (31 percent) include stakeholder comments in their CR reports.

## KPMG VIEW

# Supply chain reporting needs more focus

This survey shows that some sectors with complex supply chains, carrying potentially catastrophic environmental and social risks, have low levels of reporting on supply chain issues.

Recent incidents including oil spills and factory disasters should remind business leaders how important it is to manage the environmental and social impacts of the supply chain.

Put simply, if companies don't start managing these issues they won't have a license to operate in the globalized 21st century world. Companies urgently need to build confidence among customers, communities, investors and other stakeholders that their supply chains are being properly managed. Transparent corporate responsibility reporting is an effective way to build such confidence.

### Few large companies yet link CR performance to remuneration

- Around one quarter of companies (24 percent) report that the company Board has ultimate responsibility for CR.
- In most G250 companies (61 percent) CR is managed on a day-to-day basis by a dedicated CR or sustainability unit.
- Only one in 10 G250 companies (10 percent) reports a clear link between CR performance and executive or employee remuneration.

### Transparency and balance is limited for most companies

- Only one in five G250 companies (23 percent) publishes a well-balanced report that discusses CR challenges and setbacks as well as successes. Companies in the food & beverage, pharmaceuticals, and electronics & computers sectors are most likely to do so.



# Global trends in CR reporting: a view across 41 countries



# Part 1

Since the last KPMG Survey of Corporate Responsibility Reporting in 2011, there have been two years of debate in the business world on the form, scope and content of CR reporting.

Much of this discussion has been influenced by three important developments in the field. Firstly, the publication in May 2013 of the GRI G4 Guidelines<sup>3</sup> for reporting. Secondly, the spread of mandatory CR reporting requirements in countries from India to the UK.<sup>4</sup> And thirdly, momentum towards integrating non-financial and financial information in reporting and the work of the International Integrated Reporting Council (IIRC). Research for this survey explored the impact of these changes since 2011, assessing reporting among the N100 – the 100 largest companies in 41 countries.

The research presents a picture of CR reporting as a truly mainstream global business practice, the importance of which is recognized by companies and regulators alike. Reporting rates are

now high across all regions and industry sectors. Countries that previously lagged behind are catching up or even overtaking the early pioneers in terms of the quantity of companies reporting.

This trend is replicated at the regional level, where the Americas has overtaken Europe as the region with the highest reporting rate.

Regulation is an increasingly important driver of growth in CR reporting, but frameworks such as the GRI and voluntary guidance from regulators and stock exchanges are also driving up reporting rates. Alongside the overall growth in reporting, integration of financial and non-financial information is increasing.

#### Key findings:

- The N100 global average reporting rate has increased from 64 percent in 2011 to 71 percent in 2013.
- The Americas overtook Europe as the leading reporting region. Asia Pacific saw the most significant increase due to a jump in CR reporting rates in countries such as India, Singapore and Australia, and new countries with high reporting rates joining the survey.
- Rates remained static in Europe and dropped in the Middle East & Africa, largely due to a number of countries with low reporting rates joining the survey for the first time.

<sup>3</sup> The Global Reporting Initiative's G4 Guidelines were published in May 2013, available at: [globalreporting.org/reporting/g4/](http://globalreporting.org/reporting/g4/)

<sup>4</sup> KPMG, United Nations Environment Programme, Global Reporting Initiative and Unit for Corporate Governance in Africa, Carrots and Sticks, Sustainability reporting policies worldwide, 2013.

# CR reporting rates: Asia Pacific sees strongest growth

CR reporting is now undeniably a mainstream global business practice – with almost three quarters (71 percent) of the N100 companies surveyed publishing a report, compared with 64 percent of companies researched in 2011. The reporting rate for the G250 remained relatively stable in 2013 compared with 2011, with a minimal decrease from 95 percent to 93 percent due to the changing composition of the 250 eligible companies.

The N100 growth trend is most evident in two of the regions studied, with the Americas overtaking Europe as the leading reporting region and Asia Pacific almost catching up with Europe.

Asia Pacific saw the biggest overall increase from 49 percent in 2011 to 71 percent in 2013. This is partly due to new countries being included in the survey, such as Indonesia and Malaysia, which both demonstrate high reporting rates. However, the majority of the increase is due to exceptionally high growth rates in several countries.

For example, in India the CR reporting rate increased to 73 percent in 2013 from 20 percent in 2011, in Singapore the rate increased to 80 percent from 43 percent, and in Australia the rate increased to 82 percent from 57 percent. In the case of India and Singapore it is likely that much of this growth is due to the introduction of new mandatory and voluntary reporting requirements (see page 23). In Australia the increase is due to a number of companies reporting on CR for the first time in 2013, primarily in the company annual report.

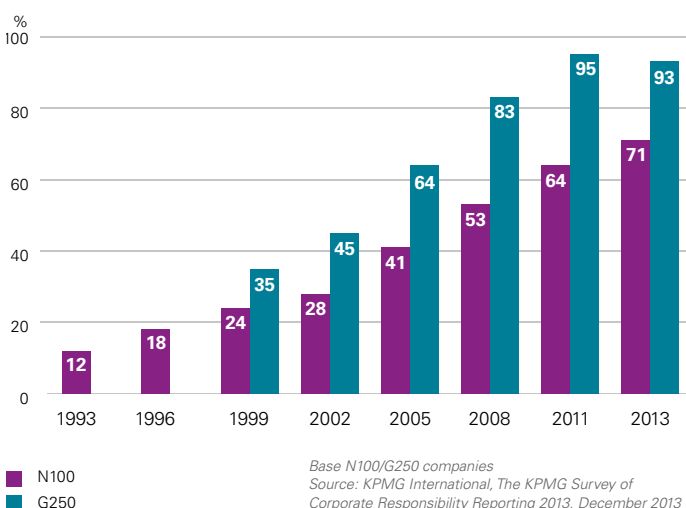
In the Americas, the CR reporting rate increased from 69 percent in 2011 to 76 percent in 2013, largely due to the changes in the number of companies reporting on CR in Latin America. Despite the rate of CR reporting remaining relatively stable in the US and Canada and the number of reporting companies in Brazil and Mexico dropping, the overall rate in the region increased.

“There has been a surge in CR reporting in Malaysia which I see as a tipping point in making CR standard business practice here, encouraged by the Malaysian Stock Exchange’s requirement that listed companies report on CR activities. At the same time, I think many Malaysian companies are less experienced in CR than companies in Europe and the Americas. For this reason, many CR reports are still limited in scope with a focus on philanthropic and community investments. However, just as the quantity of reports is increasing rapidly, so I expect to see rapid progress in the quality and sophistication of reporting processes and content.”

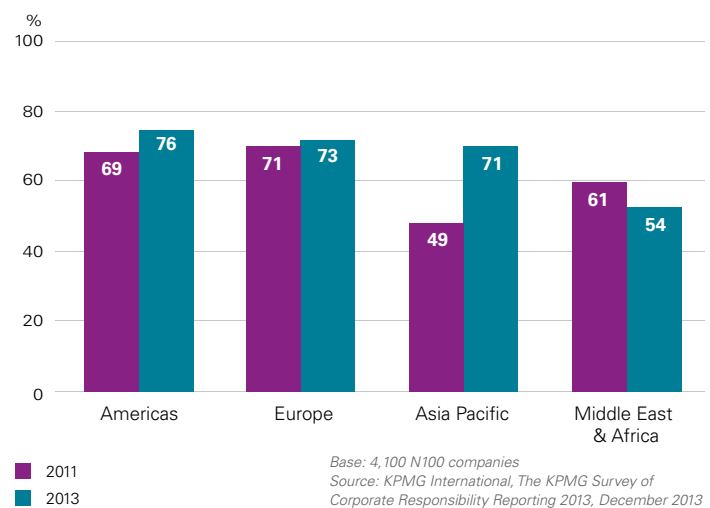


**Datuk Hew Lee Lam Sang,**  
Partner,  
KPMG in Malaysia

**Figure 7:**  
**Growth in reporting since 1993**  
Percentage of companies with CR reports



**Figure 8:**  
**CR reporting by region**  
Percentage of companies with CR reports



From 1993 to 2002 the survey included only standalone CR reports.  
From 2005 onwards the survey includes CR information in annual reports as well as separate CR reports hardcopy or web-based, due to the trend of more companies reporting on CR in company annual reports.

## Key findings:

- Regulatory requirements have driven reporting to its highest levels in France, Denmark and South Africa.
- The highest growth rates since 2011 were seen in India, Chile, Singapore, Australia, Taiwan, Romania, China (incl. Hong Kong) and Nigeria.
- Reporting rates also fell noticeably in Mexico, Brazil, Spain, Slovakia, Finland and the UK.

**Figure 9:  
Reporting rates by country**



Base: 4,100 N100 companies  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

Reporting in Chile increased substantially from 27 percent in 2011 to 73 percent in 2013, due partly to many companies reporting on CR for the first time and a number of new companies coming into the Chilean N100 list. The addition of Colombia to the survey, with a reporting rate of 77 percent, added to the overall increase in the Americas.

The reporting rate in Europe increased only slightly, partly due to lower than average reporting rates in some of the countries that were included in the survey for the first time this year (e.g. Poland). The Middle East & Africa (MEA) was the only region to see a drop in CR reporting rates: from 61 percent in 2011 to 54 percent in 2013. This was despite a high rate of reporting in South Africa (98 percent) which is consistent with 2011, and an increase in the reporting rate in Nigeria to 82 percent from 68 percent, largely due to new regulations (see opposite page). The overall decline in the MEA reporting rate is due to a number of countries with lower than average reporting rates, such as UAE and Angola, joining the survey for the first time this year.

“Reporting in China has continued to grow with three quarters of companies researched this year producing CR reports, compared with 59 percent in 2011. Reporting requirements from the Shanghai Stock Exchange and CR guidelines for state-owned enterprises have been in place since 2008. It’s likely recent growth reflects the greater expectations in the marketplace regarding CR. Reporting is a practical way to show responsiveness, and companies also want to avoid being left behind those who have already issued reports.”



**Sean Gilbert,  
Director,  
KPMG in China**

“CR is gaining greater prominence among large companies in Chile as they increasingly understand the benefits of incorporating CR into the business and reporting on this. High-profile projects in the mining and energy sectors have been delayed in recent years due to social pressure and concerns about the impact on communities and the environment, demonstrating that companies must address CR issues to continue to operate. Chilean companies are also implementing CR policies and reporting on their activities to ensure they remain competitive with foreign multinationals and are in a good position to meet government regulations.”



**Luis Felipe Encina,  
Partner,  
KPMG in Chile**

# Regulation drives growth in CR reporting

CR reporting has traditionally been voluntary, however, governments and stock exchanges around the world are increasingly imposing mandatory reporting requirements. CR reporting regulations are seen in several countries that have almost 100 percent reporting rates, including France, Denmark and South Africa. Regulation is also behind a significant increase in reporting rates in Taiwan.

Alongside government regulation, new guidelines and standards from stock exchanges and other organizations are also having an impact. For example, in Singapore, the introduction of the Singapore Stock Exchange (SGX) Sustainability Reporting Guide for listed companies and a revised Code of Corporate Governance (which makes consideration of sustainability issues part of the board's remit) has influenced the 37 percentage point rise in reporting rates.

Similar factors are influencing CR reporting in Nigeria, which has one of the highest CR reporting rates (82 percent) not only in Africa, but also globally. The Central Bank of Nigeria

issued guidelines in 2012 mandating that financial services companies establish sustainability processes and report on them. In addition, the Securities and Exchange Commission of Nigeria updated the Corporate Governance Code in 2011 to recommend disclosure of sustainability practices.

In India, where much CR reporting is focused on community investment and development, the reporting rate is increasing due to recent regulatory requirements. The top 100 listed companies in India are required by the Securities Exchange Board to report on their adoption of India's 'National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Business' in their annual reporting from financial year 2012/13. The new Companies Act, which will impact reports from financial year 2014/15, requires all registered companies to establish a Board Committee on Corporate Social Responsibility, invest at least 2 percent of net profits on socially responsible projects, and explain their activities in their annual report.

## CR reporting drops in some countries

CR reporting rates dropped in some countries compared with 2011, despite the overall upward trend. The biggest drops were seen in Mexico and Brazil (10 fewer companies reporting in both) and the UK (9 fewer companies reporting). These decreases can be explained, at least in part, by the changing composition of the N100 in these countries following the global financial crisis. In Spain, for example, mergers and acquisitions among big firms in the banking sector have resulted in some smaller companies, which are less likely to issue CR reports, being included in the Spanish N100.

"In Denmark the biggest companies are required either to report on their CR activities, or, if they do not, to explain in their annual reports why they do not do so. From 2014 this 'report or explain' approach will be extended with requirements for companies to report on human rights, climate change and employee diversity. While the reporting rate in Denmark is very high, many companies struggle with reporting on CR as they remain focused on disconnected environmental, health, human resources or philanthropic initiatives. The legislation has encouraged companies to develop a more structured approach to CR as it is increasingly difficult to report without an underlying CR strategy and clear management approach."



**Christian Honoré,**  
Partner,  
KPMG in Denmark

## Trends in mandatory and voluntary reporting policies

Research released in 2013 by the GRI in collaboration with KPMG, the United Nations Environment Programme (UNEP) and the Centre for Corporate Governance in Africa, examines mandatory and voluntary reporting policies in 45 countries. The research found that:

- there are 134 separate mandatory policies covering different aspects of CR reporting and a further 53 voluntary policies
- many policies are based on a 'report or explain' approach
- sustainability reporting has become a listing requirement on several stock exchanges in non-OECD countries, including Brazil, China (incl. Hong Kong), Malaysia and South Africa.<sup>5</sup>

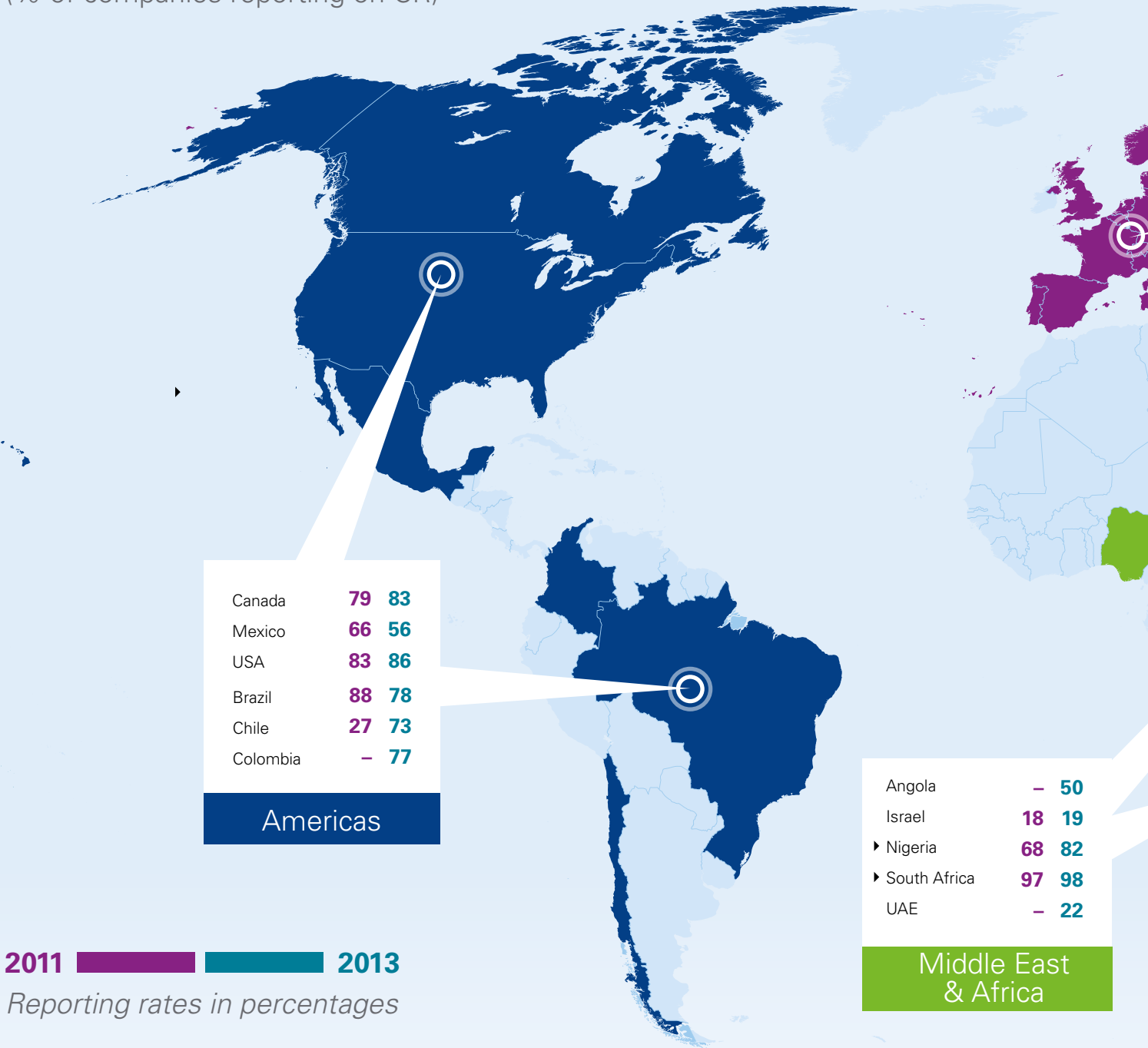
<sup>5</sup> KPMG, United Nations Environment Programme, Global Reporting Initiative and Unit for Corporate Governance in Africa, Carrots and Sticks, Sustainability reporting policies worldwide, 2013.



Figure 10:

# Rate of corporate responsibility reporting across 41 countries - 2011 and 2013

(% of companies reporting on CR)

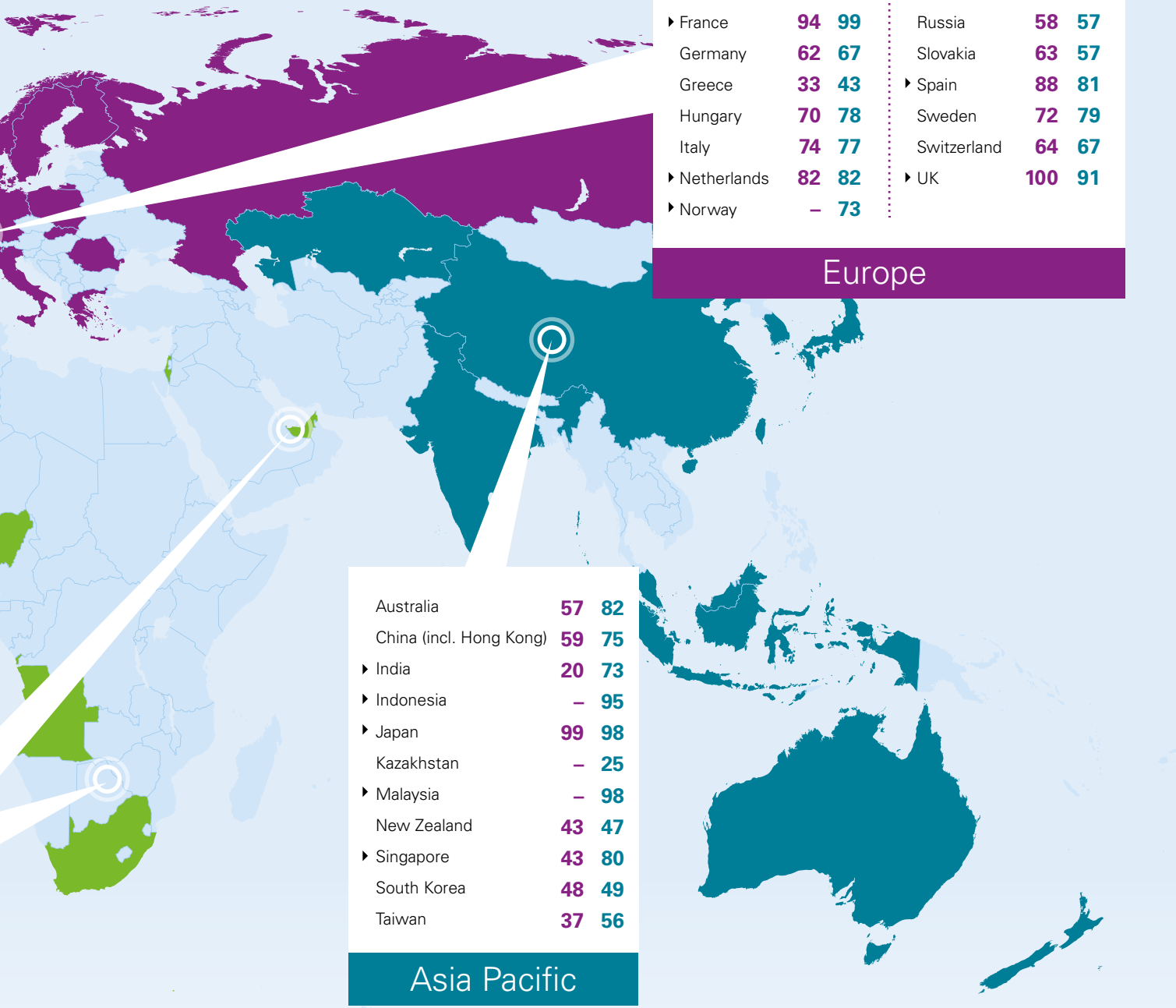


**2011**   **2013**  
*Reporting rates in percentages*

## Spotlight on reporting requirements

The following countries have high CR reporting rates or significant recent growth in CR reporting, related to reporting requirements:

- ▶ **Denmark**  
 Financial Statements Act requires large companies to report on CR activities, or, if they do not, to explain in their annual reports why not.
- ▶ **France**  
 Grenelle II Act requires large companies to report annually on CR activities and advises reports are subject to independent verification.
- ▶ **India**  
 The top 100 listed companies in India are required by the Securities Exchange Board to report on CR in their annual reporting from financial year 2012/13.
- ▶ **Indonesia**  
 Law No. 40/2007 requires Limited Liability Companies to report on CR in the annual report. Publicly-listed companies are also required to report on CR in the annual report.
- ▶ **Japan**  
 Mandatory and voluntary guidelines for certain types of companies to report on environmental impacts, including GHG emissions.
- ▶ **Malaysia**  
 Malaysia Stock Exchange listing requirement that companies describe CR activities and law that all publicly listed companies publish CR information in the annual report.
- ▶ **Nigeria**  
 Central Bank of Nigeria requires financial services companies to report on CR and the Securities and Exchange Commission of Nigeria Corporate Governance Code recommends companies disclose CR practices.



Belgium	-	68	Poland	-	56
▶ Denmark	91	99	Portugal	69	71
Finland	85	81	Romania	54	69
▶ France	94	99	Russia	58	57
Germany	62	67	Slovakia	63	57
Greece	33	43	▶ Spain	88	81
Hungary	70	78	Sweden	72	79
Italy	74	77	Switzerland	64	67
▶ Netherlands	82	82	▶ UK	100	91
▶ Norway	-	73			

Europe

Australia	57	82
China (incl. Hong Kong)	59	75
▶ India	20	73
▶ Indonesia	-	95
▶ Japan	99	98
Kazakhstan	-	25
▶ Malaysia	-	98
New Zealand	43	47
▶ Singapore	43	80
South Korea	48	49
Taiwan	37	56

Asia Pacific

Base: 4,100 N100 companies  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

▶ **Norway**  
Norwegian Accounting Act (and amendment in 2013) requires large companies to report on social, environmental and anti-corruption activities.

▶ **Singapore**  
Singapore Stock Exchange (SGX) Sustainability Reporting Guide for listed companies and Code of Corporate Governance encourage CR reporting, and Energy Conservation Act 2012 requires large companies to report on energy use.

▶ **South Africa**  
King Code of Governance Principles and King Report on Governance (King III), and Johannesburg Stock Exchange (JSE) require companies to publish an integrated report including CR performance.

▶ **UK**  
Companies listed on the London Stock Exchange must report on GHG emissions from 2013. Companies Act requires large and medium sized companies to disclose CR information relevant to company performance in the annual report.

▶ **USA**  
Disclosure requirements of the U.S. Securities & Exchange Commission (SEC), Dodd-Frank Act requires disclosure on conflict minerals and Presidential Executive Order 13514 requires federal agencies to report on CR performance.

Source: KPMG, United Nations Environment Programme, Global Reporting Initiative and Unit for Corporate Governance in Africa, Carrots and Sticks, Sustainability reporting policies worldwide, 2013.

# A narrowing gap between leading and lagging sectors

Companies operating in 15 different sectors are included in this survey.

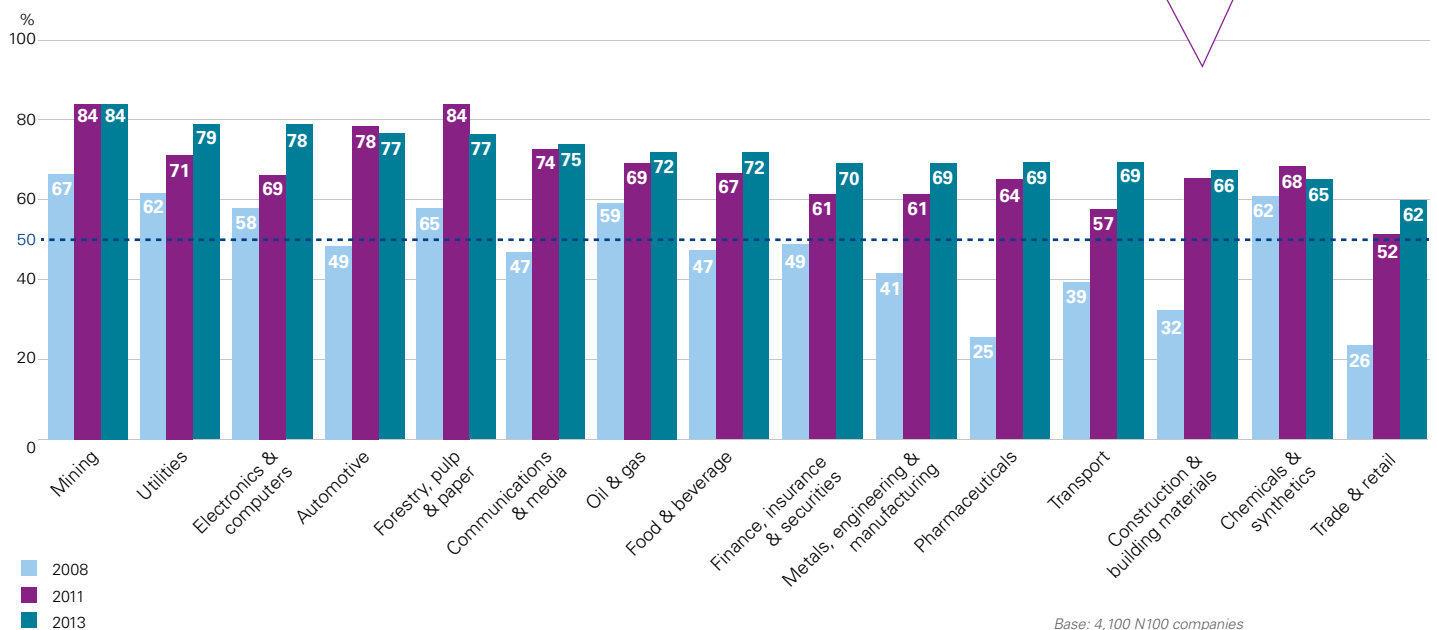
Reporting is now the norm across all these sectors, with at least 62 percent of companies in every sector producing a report. There is little change since 2011 in the types of industries that are most or least likely to report. Heavy industry and resource-based sectors still lead the way with the highest reporting rates, and services and trade & retail still lag behind. However, the gap between reporting rates among the leaders and laggards is narrowing.

Looking back to the 2008 survey, nine sectors have moved from having a minority of companies reporting five years ago to a majority in 2013: automotive, communications & media, construction & building materials, finance & insurance, food & beverage, metals, engineering & manufacturing, pharmaceuticals, trade & retail and transport. Of these, the most significant increases were in the construction, pharmaceuticals and trade & retail sectors.

## Key findings:

- The gap between the sectors with the highest and lowest CR reporting rates has narrowed to just 22 percentage points, from 32 in 2011 and 42 in 2008.
- Reporting rates have changed only incrementally in most sectors since 2011, reflecting the maturity of reporting.
- Nine sectors moved from having a minority of companies reporting in 2008 to a majority in 2013.
- The automotive and telecommunications & media sectors now have some of the highest levels of CR reporting (77 percent and 75 percent). Five years ago, their CR reporting rates were among the lowest (49 percent and 47 percent).

**Figure 11:**  
Sector reporting trends



Base: 4,100 N100 companies  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

# More companies report on CR in the annual report, but 'integrated reports' are in a minority

IR has gained significant momentum since the last survey in 2011, driven by the work of the IIRC to define a framework, by the King Code of Governance Principles and the King Report on Governance (King III) in South Africa, and worldwide by companies' own efforts to present investor-relevant non-financial information in reports.

Many companies are taking tentative steps towards IR by presenting CR data along with financial data in their annual company reports. Companies continue to take different approaches to integration, and not all companies take the IIRC concept and definition as the starting point. Research for this survey shows that more companies are combining their non-financial with financial data, but that few companies feel confident in stating that they produce an integrated report.

"Since the King Code of Governance Principles and the King Report on Governance (King III) came into effect on 1 March 2010, a growing number of South African organizations have been producing an integrated report. It is especially encouraging that this growth is not only driven by compliance, but rather by the realization that integrated reporting is a better way of providing insights into the organization's strategy and its ability to create value in the short, medium and long term."



**Neil Morris,**  
Partner,  
KPMG in  
South Africa

For the first time in this survey, the majority of companies (51 percent) include information on CR in their annual financial report. This figure has risen dramatically since 2008, when it was just 9 percent, and since 2011 when it was 20 percent, showing a growing acceptance that CR issues are material for business.

Of those companies that include CR information in their annual reports, the majority (58 percent) do so in a separate chapter, rather than integrating CR data into the wider narrative on business performance and value. An increasing number but still a minority (42 percent), are starting to make the link between CR and business strategy by including CR information in the Directors' report.

Of companies that include CR in the Directors' report, most also continue to present CR information in a separate chapter outside the Directors' report. This suggests that many companies continue to see a value in providing a separate narrative around CR performance, and enabling interested readers to look into this aspect of company performance in greater detail. It could also mean that companies are not yet sure how to fully integrate their CR information with the wider narrative on business performance.

The research also shows that only a minority of companies claim that they publish an integrated report. Just one in 10 companies that report on CR (10 percent) do so and even fewer (3 percent) reference the work of the IIRC. It remains to be seen how this will change with the launch of the final IIRC framework, and as more companies use the framework and share experiences with their peers.

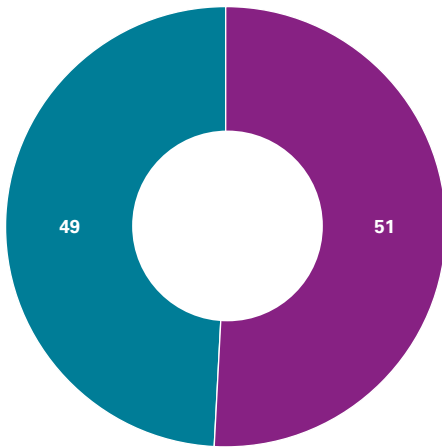
## How will IR change company reporting?

In the broadest sense, IR is about aligning business reporting with business strategy, explaining how environmental, social, governance and other non-financial factors impact on a business's ability to operate, create and sustain value over the short, medium and long term.

For many businesses, CR information has an important role to play in this broader vision of reporting, but it is important to recognize that the CR information required in an integrated annual report may be different to that traditionally provided in CR reports. This is because an annual report focuses only on the matters that are most relevant to the business strategy, and will normally provide information that is specifically aimed at meeting investor needs. Many companies may choose to report in more detail on CR in a separate report in order to meet the needs of other stakeholders interested in CR policies and performance.

The majority of companies that state they produce an integrated report are based in South Africa, driven by King III. Ninety three percent of N100 companies that report on CR in South Africa state that their report is integrated.

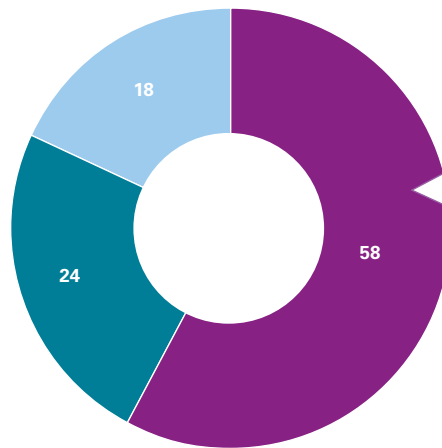
**Figure 12:**  
Corporate responsibility in annual reporting



■ CR information in annual report  
■ No CR information in annual report

Base: 4,100 N100 companies  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

**Figure 13:**  
Format of CR information in annual reports



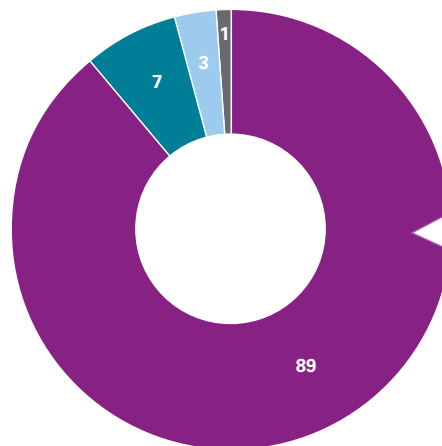
■ In a specific section/chapter on CR only  
■ In a specific section/chapter on CR and in the Directors' report  
■ In the Directors' report only

Base: 2,080 N100 companies that include CR information in annual reports  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

**Key findings:**

- More than half (51 percent) of N100 companies now report on CR in their annual financial report. This proportion has increased dramatically in the last five years from just 4 percent in 2008 and 20 percent in 2011.
- Of the companies that include information in their annual report, 42 percent now include information on CR in their Directors' report, compared with just over a quarter in 2011.

**Figure 14:**  
Does the report state it is an integrated report?



■ No  
■ Yes, the report states it is integrated, but does not refer to the IIRC  
■ Yes, the report states it is integrated and it refers to the IIRC  
■ The report does not state it is integrated, but there is reference to the IR trend/IIRC

Base: 2,897 N100 companies that report on CR  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

**Key findings:**

- 10 percent of companies claim to have integrated their annual reporting, and of these, most do not yet refer to the IIRC concept or definition.
- The number of reports that state they are integrated are by far the highest in South Africa at 93 percent due to the requirements of King III and the Johannesburg Stock Exchange.

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“Companies need to find an approach to integrated reporting that enables them to report on value creation in its broadest sense – financial, social, environmental and economic. While the work of the IIRC is invaluable in addressing the needs of the long term investor, businesses must also think about how CR information is presented in a way that meets the needs of their other stakeholders. We are likely to see many different approaches as companies embrace the concept of integration. Companies may choose to continue to give readers more detail on CR initiatives in a stand-alone report, in a separate chapter of the annual report or through their website. I would recommend that companies develop a communications strategy based on the needs of different stakeholders.”



**Wim Bartels,  
KPMG's Global Head  
of Sustainability  
Reporting &  
Assurance**

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“The release of the first International <IR> Framework creates the catalyst for a shift from those innovators in corporate reporting moving towards integrated reporting, to a significant number of early adopters. It is remarkable how much awareness has been created, with this report highlighting the momentum towards incorporating corporate responsibility into annual reports. The momentum is noted and I thank KPMG for the insights, it only encourages the IIRC to help make this breakthrough now that there is a Framework for companies to use. I can only reiterate the words of Wim Bartels when he states that ‘We would recommend that companies develop a communication strategy based on the needs of different stakeholders.’”



**Paul Druckman,  
Chief Executive,  
International  
Integrated  
Reporting Council**

# GRI remains the leading reporting framework

In the absence of regulatory requirements, voluntary reporting guidelines such as the GRI play an important role in improving consistency in CR reporting and the quality of disclosure.

Research conducted for this survey shows that the GRI remains the most widely used voluntary reporting framework, far exceeding the use of national standards and other guidelines. Over three quarters (78 percent) of global N100 companies now refer to the GRI in their CR report, an increase of 9 percentage points since 2011. Among the world's largest 250 companies the rate increased to 82 percent in 2013 from 78 percent in 2011. Those who do not refer to the GRI framework either state that they use their own frameworks developed in-house, national reporting guidelines or none at all.

In several countries where more than 75 percent of reporting companies refer to GRI, it is likely this is linked to local regulatory reporting requirements. For example, in Brazil, Finland, South Africa, Spain, and Sweden reporting requirements reference the GRI or explicitly require or recommend that companies report using the GRI guidelines.

“There is a strong belief among large companies in South Korea that the application of global standards and guidelines significantly enhances the credibility of their reporting. At the same time, Korean companies have a history of focusing resources on improving disclosure. The GRI guidelines are perceived to be more credible than a company's own standards or those from local organizations.”



**Sungwoo Kim,**  
Partner,  
KPMG in  
South Korea

“In this era of professional reporting, companies need to be able to explain to stakeholders the basis on which their report has been prepared. Use of an external framework such as the GRI will increasingly be seen to be essential to demonstrate credibility. There is currently a lack of consistency in how the GRI is used and this is reflected in reporting quality. Alignment between companies on how they apply the GRI framework, and how they focus reporting on material issues in line with the latest G4 Guidelines, is the next step.”



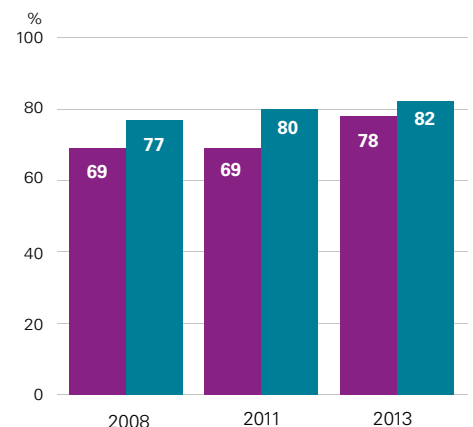
**Wim Bartels,**  
KPMG's Global Head  
of Sustainability  
Reporting &  
Assurance

“The Global Reporting Initiative undertakes an array of outreach activities, engaging with everyone from multinational corporations, labor organizations and civil society, to government, academia and market regulators. The sustainability challenge is a global one, and GRI is in a unique position to inform debates through its global network of thousands of experts and sustainability leaders, GRI ‘Focal Points’, which are regional offices in Beijing, Delhi, Johannesburg, New York, Melbourne, Mumbai, Sao Paulo and soon, Bogota – and over 70 certified training partners in every region in the world. Since KPMG's 2011 survey was published, the trend to regulate sustainability reporting has increased markedly, and it is no surprise that the figures in KPMG's survey are highest in those countries that have introduced regulation in one form or another.”



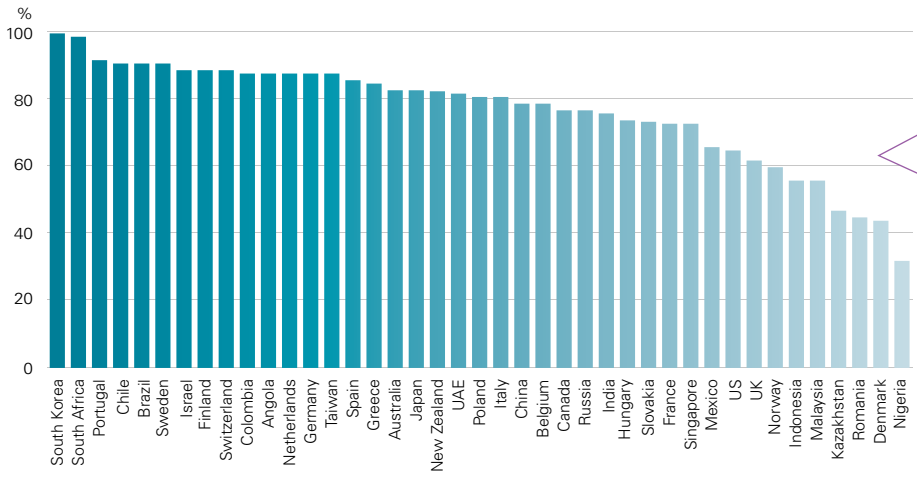
**Ernst Ligteringen,**  
Chief Executive,  
Global Reporting  
Initiative

**Figure 15:**  
Use of the GRI Guidelines



**N100** Base: N100/G250 companies with standalone report or GRI-based section in the annual report  
**G250** Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013  
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**Figure 16:**  
**Where are the GRI Guidelines used most?**



Base: N100 companies with standalone report or GRI-based section in the annual report  
 Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

**Key findings**

- More companies than ever now refer to the GRI guidelines in their CR reporting.
- In 37 of the 41 countries surveyed, more than half of N100 companies refer to the GRI guidelines in their CR reporting.
- More than 90 percent do so in South Korea, South Africa, Portugal, Chile, Brazil and Sweden.
- Less than 50 percent do so in Kazakhstan, Romania, Denmark and Nigeria.



# Assurance reaches a tipping point among the world's largest companies

External assurance of CR reports is still voluntary in most countries, with just France and South Africa pioneering a mandatory approach among the 41 countries surveyed. Despite this, many companies do seek out assurance, motivated by a need to demonstrate credibility with external stakeholders, to meet the requirements of sustainability indices and by the value assurance can create internally through more reliable data and a clearer understanding of CR issues.

The overall rate of CR report assurance among N100 companies in 2013, including the new countries added to the survey this year, is equal to 2011 at 38 percent. Among countries covered in both the 2011 and 2013 surveys, the rate of assurance among companies that report on CR increased to 41 percent in 2013. The lowest rates of assurance are seen in countries where CR reporting is still in its infancy, including Indonesia, Israel, Kazakhstan, Malaysia, Nigeria, Singapore and the UAE.

Of the N100 companies that choose to assure their CR reports, 72 percent opt for a limited rather than reasonable level of assurance, 10 percent for a reasonable level of assurance and a further 8 percent opt for a combination of the two levels. Over half (52 percent) choose to verify their whole report rather than selected indicators or chapters and the majority (67 percent) continue to opt for a major accountancy firm to provide assurance services.

In contrast to the N100, assurance rates among the world's 250 largest companies have reached a tipping point with over half (59 percent) of companies that report on CR now opting for assurance, up from 46 percent in 2011.

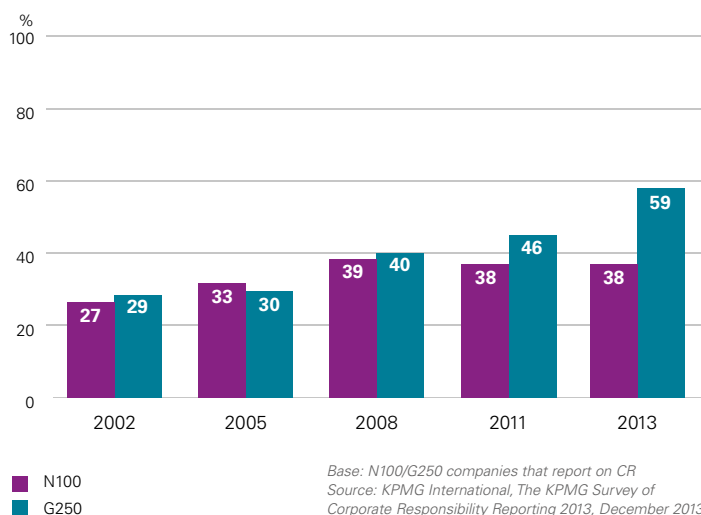
As the G250 group has led reporting trends over the last 20 years, it is likely this trend will be reflected among the N100 in future years.

"With more companies moving towards deeper integration of CR into their business strategy and management processes, we believe that external stakeholders will seek information from auditors providing independent assurance of CR information and demonstrating that the company is as serious about CR data as it is about its financial information. At KPMG we believe member firms have a role to play to assist organizations and stakeholders in that journey."



**Larry Bradley,**  
KPMG's Global  
Head of Audit

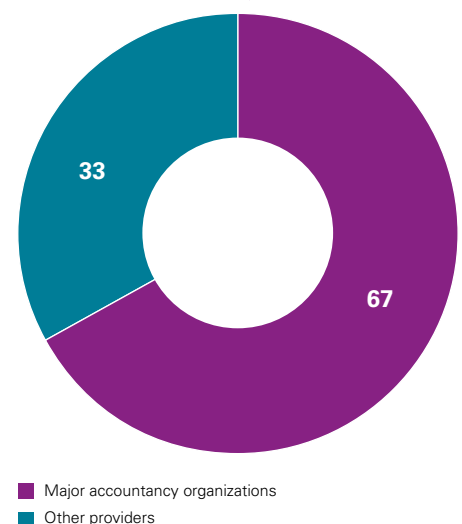
**Figure 17:**  
Rates of assurance for CR reporting



## Key findings

- The number of companies that choose to have their CR reports assured by major accountancy firms increased slightly to 67 percent in 2013, compared with 64 percent in 2011.

**Figure 18:**  
Assurance providers



Base: 1,099 N100 companies that report on CR and use external assurance  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

# Data quality stabilizes among the world's largest companies

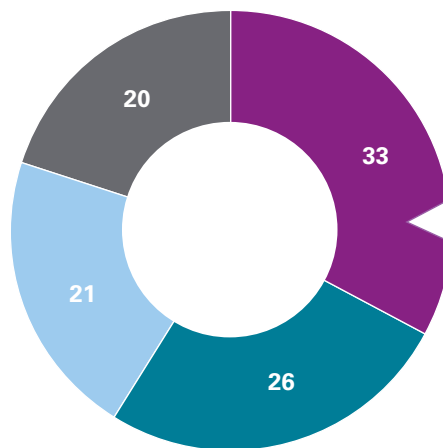
As companies seek to integrate reporting and present relevant CR data to investors alongside established metrics for financial disclosure, it is more important than ever that CR data is robust. High levels of restated data year upon year risks eroding confidence in company data, reporting systems and processes.

The number of N100 companies that made any CR data restatements increased slightly to 25 percent in 2013 from 21 percent in 2011. The number of companies that restated any CR data dropped among the G250 from one third to just over one quarter (26 percent) suggesting that the quality of data is improving among the biggest companies as CR reporting systems and processes mature.

The most common type of restatement found in both N100 and G250 CR reports relate to an updated or improved methodology being applied by companies, suggesting that companies are strengthening their internal reporting systems and processes and improving the quality of data for decision making.

The percentage of restatements due to error or omission among the N100 decreased to 21 percent in 2013, compared with 29 percent in 2011. Among the G250, the number of restatements due to data errors or omissions also decreased to 22 percent in 2013 from 35 percent in 2011.

**Figure 19:**  
**Reasons for restatements of CR data**



- Restatements due to updated (improved) estimation/calculation methodology
- Update of definitions applied
- Restatements due to error or omission
- Update of scope (not relating to change in acquisition/divestments)

*Base: 587 N100 companies that report on CR and restated CR data  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013*

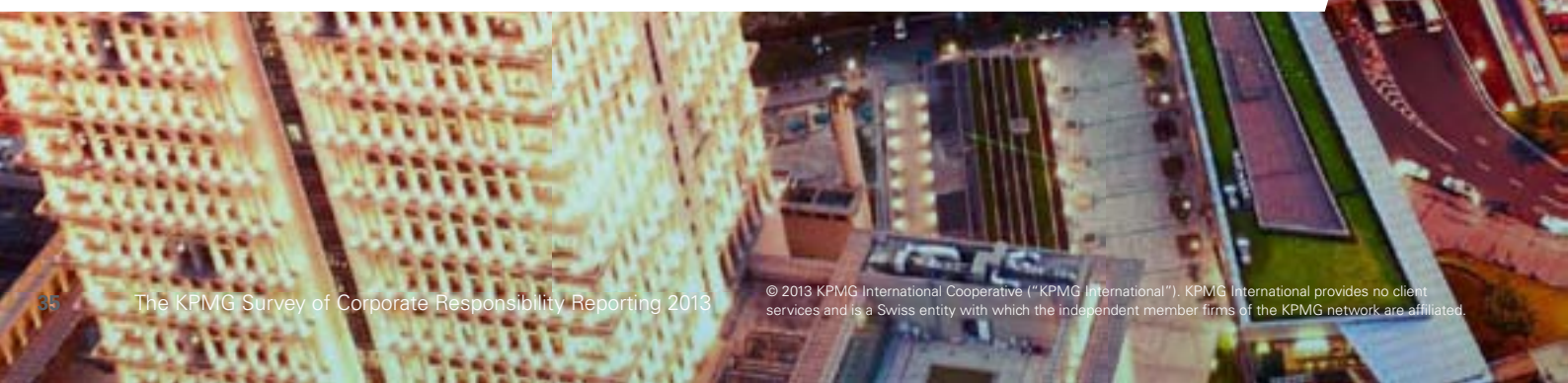
## Key findings

- One quarter of N100 reporting companies restated CR data from previous years. Of those that restated data, 33 percent state the reason for restatements was updated or improved methodologies.
- The number of G250 companies restating data dropped from a third in 2011 to one quarter in 2013. Of those that restated data, 49 percent cited updated or improved methodologies.





# The quality of reporting among the world's largest companies





# Part 2

# Introduction

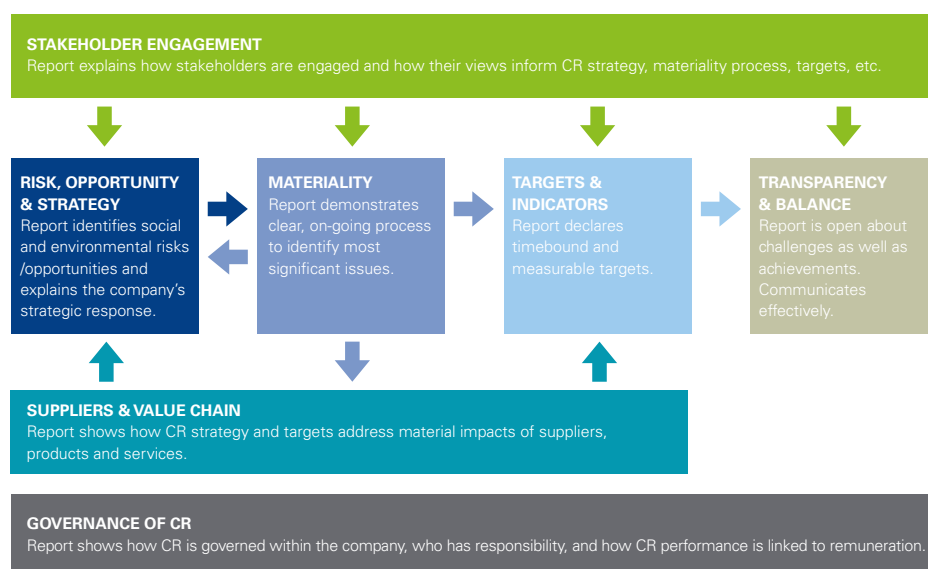
As outlined in the previous section, CR reporting is a business norm today, but we need to look behind the quantitative data to understand whether the increase in the volume of reports is matched by an improvement in the quality of reporting.

This year, for the first time, the KPMG Survey of Corporate Responsibility Reporting includes an in-depth assessment of the CR reports published by the G250 companies (the world's 250 largest companies based on the Fortune ranking). The quality of G250 reports has been assessed using seven criteria:

- strategy, risk and opportunity
- materiality
- target setting and indicators
- suppliers and the value chain
- stakeholder engagement
- governance of CR
- transparency and balance.

To supplement the research, senior representatives have been interviewed from several of the companies that scored most highly in the KPMG assessment. They shared insights into how they have achieved best practices in reporting, their motivation for doing so and the business benefits they have gained as a result.

**Figure 20:**  
KPMG's CR reporting quality assessment, 7 key criteria



Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

### Almost all G250 companies issue CR reports but the quality of reporting is inconsistent

Each G250 company's report was assessed against the quality criteria and awarded an overall score. This produced an average quality score of 59 out of 100 among the 93 percent of G250 companies that publish a CR report.

The highest average scores were seen for reporting on targets and indicators (68) and materiality (66). Companies scored lowest for the quality of their reporting on suppliers and the value chain (46), governance (53) and stakeholder engagement (53). The results suggest there is room for improvement in the quality of company reporting on CR.

The historical trend has been to report on data and numbers rather than the details around processes. Also, issues such as supply chain management and governance have only become subject to public scrutiny fairly recently and so company processes for these may not yet be as robust as they could be in many companies. The quality of reporting matters because it is taken as indicative of the quality of management/what is actually happening inside the company.

Poor quality reports tend to be associated with poor performance in the mind of the reader. Few companies practice 'total greenwash' these days but readers certainly give more credence to a higher quality report.

### A cluster of 10 companies of those surveyed set the pace

One quarter of G250 companies (63) achieved an overall quality score of 80 or above. These companies demonstrated a superior understanding of the impact of social and environmental issues on their business and reported on their strategy, performance and interaction with stakeholders more than others.

Ten companies scored 90 or more. They are:

- A.P. Møller Mærsk  
*Transport - Denmark*
- BMW  
*Automotive - Germany*
- Cisco Systems  
*Telecommunications & media - US*
- Ford Motor Company  
*Automotive - US*
- Hewlett-Packard  
*Electronics & computers - US*
- ING  
*Finance, insurance & securities - The Netherlands*
- Nestlé  
*Food & beverage - Switzerland*
- Repsol  
*Oil & gas - Spain*
- Siemens  
*Electronics & computers - Germany*
- Total  
*Oil & gas - France*

"The quality of CR reporting in China varies quite dramatically from thoughtful documents to ones that only speak of broad ambitions and values with little detail about actual actions or outcomes. Reporting should outline a strategic focus, targets and follow-up actions, rather than an exhaustive list of unconnected social or environmental activities. When the department that drives CR reporting does not have a mandate to set strategy for the company or influence other departments' goals, programs and priorities, it is often reflected in the quality of the reporting. That said, it is a process and China must be recognized for going from very limited disclosure to the much higher numbers of companies reporting today in just a few short years."



**Sean Gilbert,**  
Director,  
KPMG in China

**Table 2:**  
Average quality of G250 reports by sector

Sector	Average score (out of a possible 100)
Electronics & computers	75
Mining	70
Pharmaceuticals	70
Utilities	65
Telecommunications & media	65
Transport	64
Automotive	64
Food & beverage	59
Finance, insurance & securities	58
Chemicals & synthetics	58
Oil & gas	55
Trade & retail	55
Metals, engineering & manufacturing	48
Construction & building materials	46

Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

### Electronics & computer companies lead the pack

Companies in the electronics & computers sector lead the G250 in terms of the quality of CR reporting, with an average score of 75, followed by mining (70) and pharmaceuticals (70). The lowest scoring sectors are oil & gas, trade & retail, metals, engineering & manufacturing, and construction & building materials.

**Table 3:**  
Average quality of G250 reports by country

Country	Average score (out of a possible 100)
Italy	85
Spain	79
UK	76
France	70
Australia	70
Netherlands	69
Germany	68
Switzerland	63
South Korea	60
Japan	55
US	54
China (incl. Hong Kong)	39

Note: Table includes only those countries with five or more companies in the G250 that report on CR.

Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

### Europe in front on reporting quality

European companies have a significant lead over other regions in reporting quality with an average score of 71, compared with average scores of 54 in the Americas and 50 in Asia Pacific.

There are also pronounced regional differences in scores for certain criteria. For example, companies in the Asia Pacific region score 45 on average for transparency and balance, compared with 53 in the Americas and an average

**Table 4:**  
Average quality of G250 reports by criterion

Quality criteria	Average score (out of a possible 100)
Targets & indicators	68
Materiality	66
Strategy, risk & opportunity	62
Transparency & balance	58
Governance	53
Stakeholder engagement	53
Suppliers & the value chain	46

Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

European score of 73. For reporting on suppliers and the value chain, average quality scores are 31 in Asia Pacific, compared with 48 in the Americas and 58 in Europe.

Italy, Spain and the UK have the highest average scores, reflecting the relative maturity of reporting in these markets compared with countries such as China (incl. Hong Kong) where widespread reporting is a newer phenomenon.

# Lessons from the leaders

KPMG's analysis has identified a cluster of 10 exemplar G250 companies whose CR reporting scored particularly highly against our quality criteria, and a further eight whose reports scored most highly within their specific sector.

A number of these companies agreed to share their experiences with readers of this survey. Organizations with their own experience in CR reporting may recognize much of what these companies say, while those that are less practiced may find some useful lessons.

We asked the exemplar companies the following questions.

- What are the fundamentals for publishing high quality CR reports?
- What benefits have you gained from CR reporting?
- How do you think CR reporting is likely to evolve?
- What challenges do you face in further improving the quality of your reports?

**Table 5:**  
**Companies that participated in interviews:**

Company	Country	Sector
A.P. Møller Mærsk	Denmark	Transport
Bayer	Germany	Pharmaceuticals
BMW	Germany	Automotive
Cisco Systems	US	Telecommunications & media
Enel	Italy	Utilities
Ford Motor Company	US	Automotive
Hewlett-Packard	US	Electronics & computers
ING	Netherlands	Finance & insurance
Nestlé	Switzerland	Food & beverage
Repsol	Spain	Oil & gas
Siemens	Germany	Electronics & computers
Tesco	UK	Trade & retail
Total	France	Oil & gas
Vale	Brazil	Mining

Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013



# Getting the fundamentals right

## Establish robust processes

All the companies we spoke to agreed that the foundations of quality CR reporting are robust systems and processes for collecting data and identifying material issues.

“Getting the basics right, such as a good materiality process, enables us to create a report that both satisfies the needs of external stakeholders and is relevant to our business,” said Annette Stube, Director of Group Sustainability at A.P. Møller Mærsk Group. “The more solid our processes the better the report.”

“The more solid our processes the better the report.”

**Annette Stube,**  
Director of Group Sustainability,  
A.P. Møller Mærsk Group

There is, however, no “one size-fits-all” solution for collecting data. Many of these companies have developed their own systems rather than buying off-the-shelf products. Inevitably it takes time, and some trial-and-error, to get these systems right but the more integrated they are into the business, the more effective they are.

At Tesco, for example, CR is a core part of the balanced scorecard used across the entire company to monitor performance against the business strategy.

## Lead from the front

Getting the right processes in place is important, but good processes are no use if they are not implemented.

That implementation needs to be driven from the very top of the organization, according to the companies we spoke to.

“Leadership support is a must to secure the buy-in and engagement of the functions which are crucial to development of the report,” said Ursula Mathar, Head of Group Sustainability and Environmental Protection at BMW.

As Kersten-Karl Barth, Director of Corporate Sustainability at Siemens said, “The Siemens Sustainability Board, which is chaired by the Chief Sustainability Officer, is the central steering committee for sustainability at Siemens. In its regular meetings it directs our sustainability program as part of our sustainable strategy, adopts appropriate measures and initiatives and monitors progress.”

It is perhaps no surprise that these companies all have leaders who are personally engaged with and committed to CR.



At Vale, for example, senior leaders play hands-on roles in CR reporting, helping to establish priorities and identify issues and dilemmas to be covered.

Not only does this help to secure the necessary time and resources for quality reporting, but it also gives CR teams the license to be transparent and balanced in their disclosure, reporting challenges and setbacks as well as successes.

As John Viera, Global Director of Sustainability of Ford Motor Company said, “We have support from the top down and that has enabled us to report in a more credible way.”

However, even in companies where reporting is well-established, senior managers do come and go and priorities can change. CR teams must continually demonstrate the business value of reporting to ensure continued support.

“CR reporting costs money and time, so it is important that internal stakeholders understand the added value we get from the report,” said Ute Menke, Head of Sustainability and External Reporting at Bayer.

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“By reaching out beyond our own four walls, we can create a better report.”

**John Viera,**  
**Global Director of Sustainability,**  
**Ford Motor Company**

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### **Stakeholder engagement: get the right balance**

The companies agreed on the importance of good stakeholder engagement in delivering quality CR reporting.

“By reaching out beyond our own four walls, we can create a better report that meets the needs of our stakeholders. It also gives confidence to our senior leaders that we are focused on the right issues,” said John Viera of Ford.

However, these companies recognize it is unrealistic to satisfy all the information expectations of all stakeholders.

Eduardo García Moreno, Director of Corporate Responsibility and Institutional Services at Repsol noted, “We need to respond to many stakeholders; some demand more concise information while others require more detailed data.”

A balancing act is required and this is where a robust materiality process is essential.

“We get a huge volume of enquiries from stakeholders. We can never respond to everything, so we use materiality to identify our priorities and drive those forward,” said Kathy Mulvany, Senior Director of Corporate Affairs at Cisco Systems.

Companies that publish stakeholder views and comments in their CR reports say they benefit significantly from the added credibility these independent voices bring. However, some are concerned that the move towards integrated reporting could lead to constraints on format and content and make it more difficult to include stakeholder voices in the future.

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“We use materiality to identify our priorities and drive those forward.”

**Kathy Mulvany,**  
**Senior Director of Corporate Affairs,**  
**Cisco Systems**

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### **Be transparent on targets**

The exemplar companies believe their CR performance is helped by publicly declaring their CR targets, and being open about their performance against those targets.

As Josh Hardie, Corporate Responsibility Director at Tesco PLC said, “Publishing a report does incentivize us to push ourselves further. If you miss a target you have to be open about it, and you don’t want to miss it again.”

At Bayer, Ute Menke believes that targets have benefits above and beyond showing external stakeholders the progress the company has made. “Internally the targets help push sustainability further into the organization,” she said.

### Create ownership

The companies interviewed go to great lengths to generate a sense of ownership of CR across all functions in the business. For example, Vale engages one thousand employees every year to produce its CR report.

“We have to make sure people understand why the report matters,” said Vania Somavilla, Executive Director of Human Resources, Health and Safety, Sustainability and Energy at Vale.

“When we produced our first report we invested a lot of time in explaining our approach, discussing why transparency is important and introducing people to the reporting guidelines. We didn’t just give our view but listened to their perspective. This has been good for our reporting and has contributed to a wider cultural change in the organization around transparency.”

### Use reporting frameworks

These companies claim both internal and external benefits from using reporting frameworks.

Several said that frameworks help CR teams to make the case for disclosing information and to expand the scope of the company’s CR reporting. If senior managers are motivated to achieve a high framework rating, it is more likely they will commit to transparent and balanced reporting overall.

Interviewees also said that frameworks help to achieve consistency in reporting between different companies, making it easier for external stakeholders to compare and contrast.

This, they feel, enhances the credibility of their reporting, increasing trust and improving relationships.

“Consistent reporting, in a transparent way using an accepted format, gives us the credibility and wherewithal to have those important conversations with stakeholders,” said John Viera of Ford.

That said, a number of companies emphasized that while external frameworks are useful reference tools, they are no substitute for using their own judgement to determine what and how to report.

“We write the report and then tick the GRI framework boxes, not the other way around,” said Leon Wijnands, Global Head of Sustainability at ING. “So far, we’ve never been in a situation where looking at the GRI framework has made us realize we missed something.”

Although there is broad support for frameworks among these companies, there is also frustration over the disparities between different frameworks.

“The proliferation of external frameworks is frustrating for companies and adds unnecessary complexity,” said Ellen Jackowski, Living Progress Strategy, Hewlett-Packard.

### Invest in external assurance

Companies remarked that the constructive criticism and challenge they get from having their CR data assured helps them to improve the clarity and credibility of their CR reporting. Some observed specific improvements such as a greater focus on materiality.

“Assurance has helped us be more focused on materiality, to be more factual in our reporting and to improve the strength of our systems internally,” said Ute Menke of Bayer. “It is something that many of our clients and stakeholders now expect.”

Janet Voûte, Global Head of Public Affairs at Nestlé noted that by assuring its CR data the company sends a strong signal to its stakeholders about its commitment to CR. Its Creating Shared Value report is published at the same time as its annual report and accounts, and both are externally assured.

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“Assurance has helped us be more focused on materiality”

**Ute Menke,**  
**Head of Sustainability and External Reporting,**  
**Bayer**

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# The benefits of reporting

## Drives performance and innovation

Many of the companies interviewed cited improved business performance and innovation as one of the primary benefits from CR reporting.

Fulvio Conti, Chief Executive and General Director of Enel noted, "Our materiality assessment is central to the quality of our report. It means we focus on the most relevant issues for both the company and our stakeholders, aligning our competitive advantage with the advantage of societies and communities in which we operate."

At Hewlett-Packard for example, reporting the carbon footprint of the company's own operations helped to create management awareness of the downstream carbon emissions of its products and encouraged the company to address them.

At ING, CR reporting resulted in a significant shift towards renewable energy in its utility power portfolio.

"Reporting our project finance energy portfolio and its shift towards renewables, sparked the internal debate about the force of sustainability trends," said Leon Wijnands of ING.

John Viera of Ford agreed. He said, "Through our risk assessments and reporting on climate change many years back, our senior executives were able to identify new opportunities for innovation in our products and production facilities."

Bayer is another example of a G250 company where reporting on CR has helped to stimulate innovation. "Our climate program began with a focus on efficiency and has led to innovation in our products and services, such as our sustainable housing products," said Ute Menke. "Apart from disclosing these developments transparently, reporting also plays a role in this through its impact on internal awareness and increasingly detailed and reliable data management."

"Our materiality assessment is central to the quality of our report."

**Fulvio Conti,**  
Chief Executive and General Director,  
Enel

## Enhances reputation internally and externally

Reporting has a significant positive impact on employee pride and motivation. Many companies highlight the positive role their report plays in recruitment of new employees and some also emphasized its importance in retention. Reporting is also seen as an important tool for strengthening relationships with external stakeholders.

Leon Wijnands at ING, said, "The report plays an important role in our communication with stakeholders. It is our opportunity to answer their questions and to share our stance on key issues. We are using the content more and more throughout the year to communicate with clients, customers and others."





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“Actions that one part of the business takes can be very relevant to another.”

**Josh Hardie,**  
**Corporate Responsibility Director,**  
**Tesco PLC**

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However, positive effects are dependent on the quality and credibility of reported information. As John Viera of Ford notes, “To get a reputational benefit you need your actions to match your words and to report in a consistent and transparent way against an accepted framework. That gives you the credibility to have the conversations with NGOs and others.”

For Cisco, producing a report is particularly important to building credibility with customers, who look to Cisco to provide products and solutions that can help them operate more sustainably.

“Our products and services help customers to operate more sustainably, for example to reduce energy and avoid employee travel,” says Kathy Mulvany of Cisco.

“Our report shows them that we walk the talk, and if we can do it, they can do it too. It improves our credibility and that helps us engage with customers and help them solve their sustainability problems.”

#### **Improves internal communication**

The process of CR reporting can in itself be a powerful internal communications tool.

All companies interviewed said that CR reporting improves internal awareness of CR and that, on a practical level, the report acts as a useful repository of information for all employees to use in their work and in communicating with external stakeholders, including investors and analysts.

In such large companies, it can also be easy for innovative practices in one part of the business to be unknown in other parts. CR reporting can help different functions to learn from each other, and for companies to identify opportunities to scale up their work on CR and sustainability.

As Josh Hardie from Tesco said, “The process of collecting and analyzing information helps us identify opportunities to use our scale to increase impact. Actions that one part of the business takes can be very relevant to another. Reporting plays a role in helping to share that information.”

# Future trends and challenges

These companies expect that their CR reporting will become more integrated with financial reporting over the next five years and more focused on materiality, driven by the GRI G4 Guidelines.

Companies including Bayer are already making the move to integration and others expect to follow, but there is no clear or common view over what form IR will take in practice.

As Vania Somavilla from Vale said, "In five years I believe integrated reporting will be the norm, that's why we are very active in the debate on this issue. However, although we recognize the importance, there are many hurdles to overcome and soon we expect to have a view of what integrated reporting looks like for Vale."

There is optimism that IR will help mainstream investors to become more engaged with sustainability issues.

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"In five years I believe integrated reporting will be the norm."

**Vania Somavilla,**  
**Executive Director of Human Resources, Health and Safety, Sustainability and Energy, Vale**

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However, there are also concerns that the depth and balance of CR reporting may be lost if it conforms to the more formalized style and tone of many annual reports.

"It is important that integration doesn't result in reports that are more legalistic. If sustainability reporting in its current form completely disappears, that will be a loss," said John Viera of Ford.

Companies also expect to communicate around CR more frequently in future. For example, Tesco has already moved to publishing a half yearly CR performance update alongside other ongoing communication.

ING also recognized the need for frequent communication. "We need to communicate as events occur, not 12 months after," said Leon Wijnands of ING.

Finally, these companies expect the traditional formats of CR reporting to evolve and fragment with a shift away from the 'all-in-one' or 'encyclopedia' approach.

"We use our other sustainability communications to tell our stories, while using our report to be clear and concise and transparent about our progress," said Ellen Jackowski of Hewlett-Packard.

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"We need to communicate as events occur, not 12 months after."

**Leon Wijnands,**  
**Global Head of Sustainability, ING**

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Bertrand Janus, Head of CSR Reporting at Total agreed. He said, "One of the problems in corporate responsibility reporting is that companies try to use one document to do many different jobs. Reporting and communication are two different things. It is important to distinguish between them and to use different tools to meet the different objectives involved. We consider our annual report to be the main 'report' which frees us to communicate in different ways and to tell our story better by using various media."

For companies including Vale and Repsol the evolution of reporting will include more local level reporting, enabling them to engage more effectively with employees and external stakeholders at the local level.



# 1: Strategy, risk and opportunity

## Building long term value in a changing world

Today's businesses operate in a world increasingly shaped by social and environmental megaforces.<sup>6</sup> The global population is growing and shifting to cities; wealth patterns are changing; natural resources, including water and food supplies, are becoming more difficult to access and/or more costly to produce as demand increases; the climate is warming and ecosystems are declining.

These megaforces do not function in isolation from each other – they are interlinked in a complex system.

Business leaders need to understand these megaforces and be alert to the commercial risks and opportunities they present, both now and in the future. Only then can they create robust strategies for long term success and plan for the business models of tomorrow.

CR reporting should therefore demonstrate that the company:

- is aware of social and environmental megaforces and how they impact the business
- understands and, ideally, has quantified the resulting risks and opportunities
- has a strategy in place to minimize risk and exploit opportunities and is clear about the actions it is taking.

**Figure 21:**  
Ten sustainability megaforces



Source: KPMG International, *Expect the Unexpected*, February 2012.

“Cisco technologies and sustainability best practices help Cisco and our customers improve productivity and efficiency while reducing cost, benefiting our businesses and the planet.”



**John T. Chambers,**  
Chief Executive and  
Chairman,  
Cisco Systems

“We are investing in growth, and we will achieve our aspirations only as a responsible business partner and employer. Whether it is a new ship, port or rig, our investments are made with a focus on the long term. By connecting people and businesses to global supply chains in smarter and more efficient ways, we aspire to build better and stronger economies in the regions we serve.”



**Nils S. Andersen,**  
Chief Executive,  
A.P. Møller Mærsk  
Group

<sup>6</sup> KPMG International, *Expect the Unexpected*, February 2012. [kpmg.com/expecttheunexpected](http://kpmg.com/expecttheunexpected)



**Megaforces are widely acknowledged but identification is inconsistent**

Of the G250 companies that report on CR, most (87 percent) identify at least some social and environmental megaforces that affect the business. Climate change and material resource scarcity are the most frequently named, identified by 55 percent and 47 percent respectively.

“I want us to get to a position where we can make the same presentation about our company results to the mainstream investors as to the socially responsible investors.”



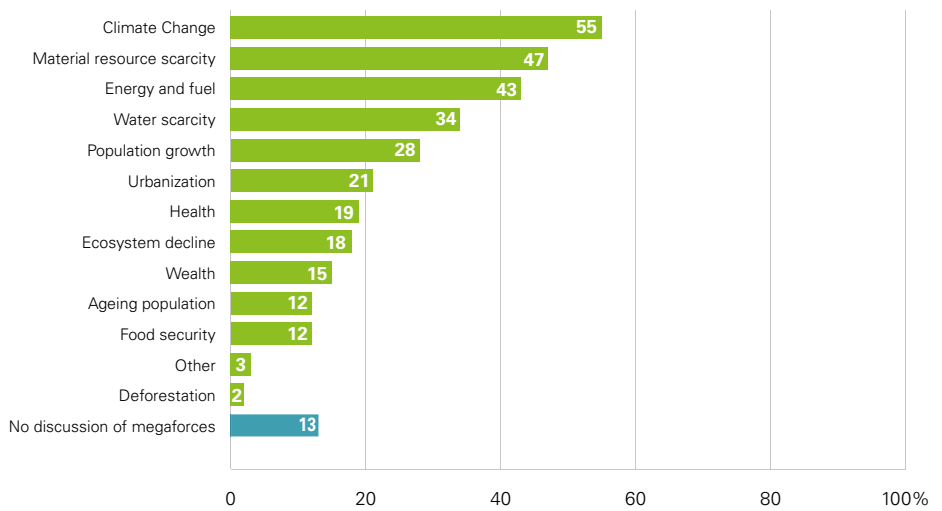
**Christophe de Margerie,**  
Chief Executive,  
Total

“Enterprises can pursue innovative business models and new opportunities to deliver transformative solutions that can have deep impacts on societies. Moreover, the financial community is now undeniably recognizing and shaping the long term benefits of contributing to sustainable development, that aim for positive social or environmental outcomes while generating financial returns. It’s been two years since Enel’s CSR Unit and Investor Relations Unit started working together towards an integrated communication about the company ESG – Environmental, Social, Governance - performance to both institutional and mainstream investors.”



**Fulvio Conti,**  
Chief Executive and  
General Director,  
Enel

**Figure 22:**  
Does the report identify global environmental and social megaforces that affect the business?



Base: 233 G250 companies that report on CR  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

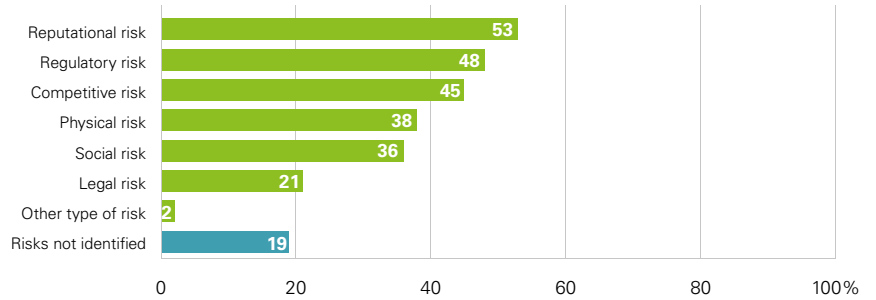
**Six types of CR risk**

KPMG has identified six key types of risks companies face from social and environmental megaforces.<sup>7</sup> For this report, member firms’ professionals reviewed G250 CR reports to find out what types of risks large companies are identifying.

- Physical:**  
Damage to assets and supply chains from physical impacts such as storms, floods, water shortages and sea-level rise.
- Regulatory:**  
Complex and rapid changes to the regulatory landscape.
- Reputational:**  
Damage to corporate reputation from being seen to do the wrong thing.
- Competitive:**  
Impacts of fast-changing market dynamics, and uncertainty of supply and price volatility of key inputs.
- Social:**  
Conflicts, social unrest, community and worker protests, labor shortages, migration, etc.
- Legal:**  
Exposure to potential legal action, for example, over non-disclosure of environmental, social and governance information.

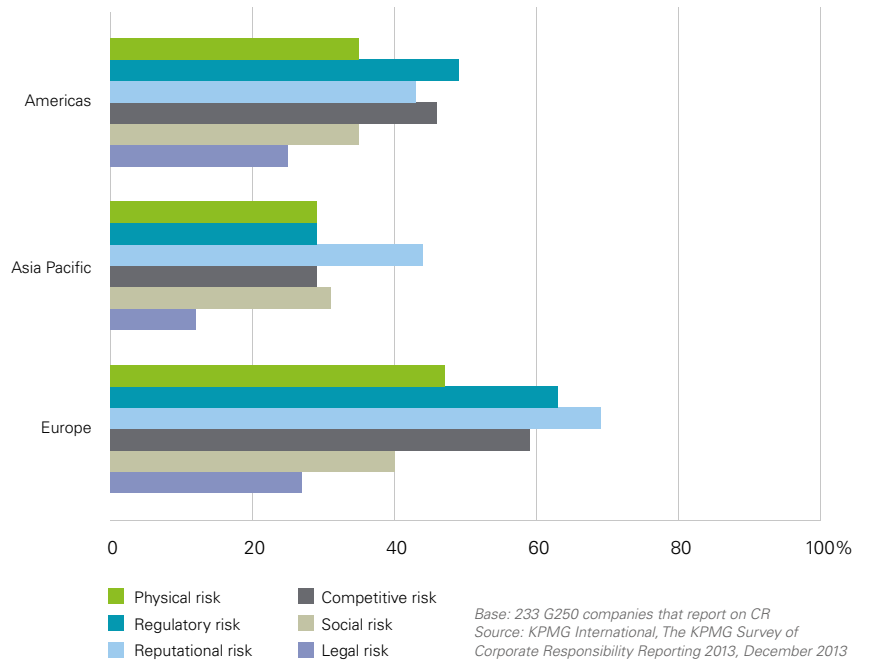
<sup>7</sup> KPMG International, *Expect the Unexpected*, February 2012. [kpmg.com/expecttheunexpected](http://kpmg.com/expecttheunexpected).

**Figure 23:**  
Does the report identify risks to the business as a result of global social or environmental megaforces?



Base: 233 G250 companies that report on CR  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

**Figure 24:**  
Most frequently identified risks by region



Base: 233 G250 companies that report on CR  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

“Siemens has defined sustainability to mean acting responsibly on behalf of future generations to achieve economic, environmental and social progress. We are convinced that sustainability, in this sense, is a business opportunity, and one that is worth seizing. One Siemens, our framework for sustainable value creation and capital-efficient growth, addresses this business opportunity.”

**Kersten-Karl Barth,**  
Director of Corporate Sustainability,  
Siemens

### Megaforce risks hit operations not just reputations

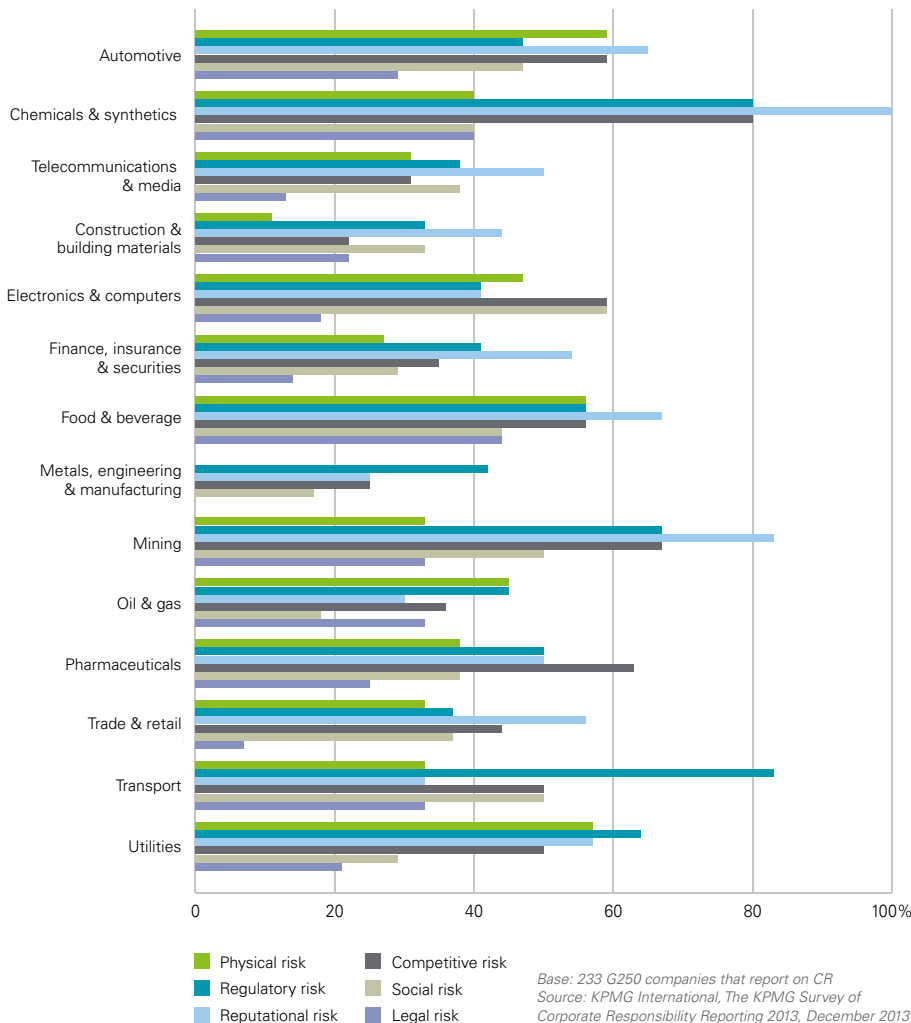
Most reporting companies (81 percent) identify at least some megaforce-related risks in their reports, but one in five do not mention any related risks at all. European G250 companies are markedly more likely to acknowledge environmental and social risks than companies in the Americas or Asia Pacific.

CR has traditionally been seen as a reputational issue, and reputational risk is still the most commonly

mentioned type of risk, cited in 53 percent of G250 CR reports. However, the research also clearly shows that a significant number of companies now acknowledge other types of environmental and social risks. Almost half the G250 companies that report mention regulatory (48 percent) and competitive (45 percent) risks. Social risks are acknowledged by more than one third (36 percent).

In the Americas, competitive and regulatory risks are more commonly mentioned than reputational risks, and almost all mentions of legal risk in reports from this region are from companies headquartered in the US.

**Figure 25:**  
Most frequently identified risks by sector



### Few companies report value at risk

Only a small number of G250 CR reports (5 percent) include information on financial value at stake through environmental and social risk. Although these companies are currently the

“The world has faced and resolved numerous challenges over the past centuries. Focusing only on the risks of sustainability does not address the key challenge of our time - providing decent lives for 9 billion people by 2050 within the carrying capacity of our planet. Businesses play a crucial role in the world by finding profitable solutions to challenges. It is therefore encouraging to see that big business is now seeing sustainability through a lens of opportunity as much as, or more than, through the lens of risk.”



**Yvo de Boer,**  
KPMG's Global  
Chairman,  
Climate Change &  
Sustainability  
Services

minority, a further 38 percent of reporting G250 companies acknowledge that these risks carry financial impacts but do not go so far as to quantify the value at stake. Financial quantification of risks is most prevalent in the financial and oil & gas sectors. Almost three quarters of the G250 companies that quantify at least some of their environmental and social risks in financial terms are in the oil & gas and financial services sectors.

CR might have been seen 10 years ago as an ethical or reputational issue primarily, but environmental and social factors now present direct bottom-line risks in most

“Every non-financial risk might have a financial impact if we don’t manage it properly.”



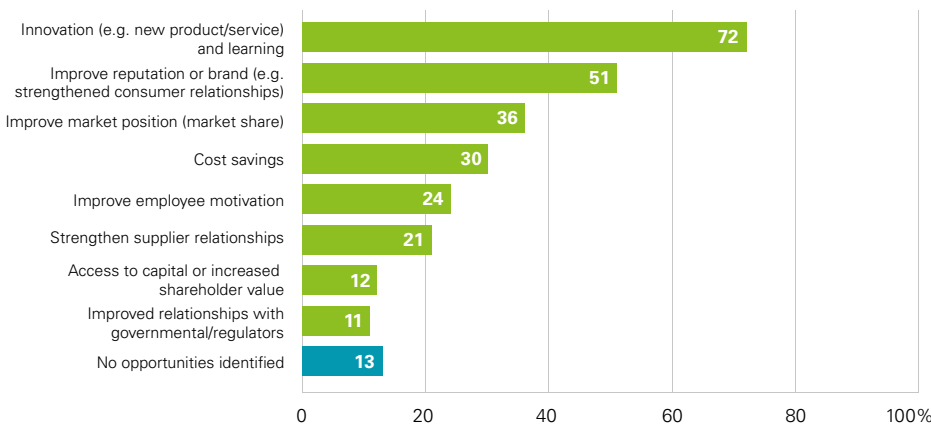
**Ute Menke,**  
Head of  
Sustainability  
and External  
Reporting,  
Bayer

“There is a reputational benefit from our work on sustainability but the motivation is about much more than reputation. If our business is to succeed long term we need to use resources efficiently and to contribute to thriving communities. This is essential to our future competitiveness.”



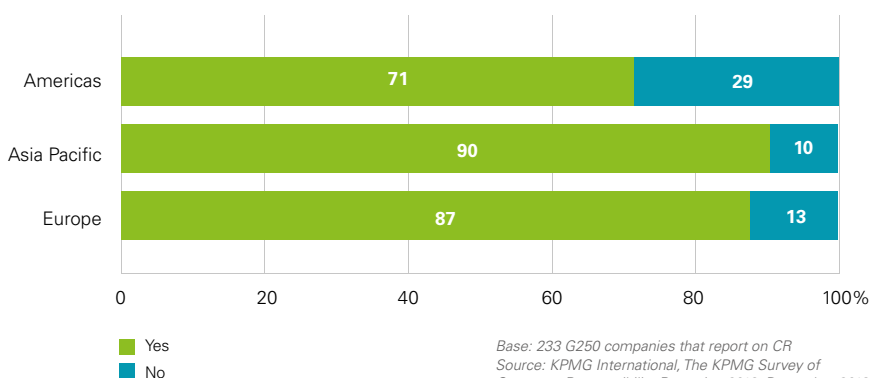
**Josh Hardie,**  
Corporate  
Responsibility  
Director,  
Tesco PLC

**Figure 26:**  
Does the report identify opportunities as a result of global social or environmental trends?



Base: 233 G250 companies that report on CR  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

**Figure 27:**  
Does the report state that the company has a CR strategy?



Base: 233 G250 companies that report on CR  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

“Reporting on sustainability strategy varies widely among US companies and sectors. Some companies do not report on sustainability strategy separately from core business strategy, particularly where programs have grown organically and are embedded in the business culture. Some companies may also decide not to disclose their strategy completely on commercial grounds. Ideally the sustainability strategy should align closely with, or be embedded in, the corporate strategy. I see successful organizations using CR as the lens of the business to drive additional business value.”



**John Hickox,**  
Partner,  
KPMG in the US



# 2: Materiality

## Critical to the evolution of CR reporting

The social and environmental impacts of a company's activities can be many and various, but not all impacts are equally important either to the business or its stakeholders. Companies need a materiality process to identify and prioritize the issues at the heart of their long term viability and to focus management and reporting resources on these.

With the introduction of the GRI G4 Guidelines and the growth of IR, materiality is set to become an even more critical element in CR reporting, and creates an opportunity for companies to produce more focused reports.

CR reporting should therefore demonstrate that the company:

- clearly identifies and discloses its material issues
- conducts a materiality assessment regularly and has an ongoing process for assessing the changing importance of issues to the business and its stakeholders
- takes the views of internal and external stakeholders into account when assessing materiality
- manages its material issues to improve performance over time.

## More transparency is needed on materiality processes

Our research shows that materiality is widely referred to as a guiding principle for CR reporting, with more than three quarters of G250 reports identifying issues that are material to the business (79 percent).

Companies in the mining, construction & building materials, pharmaceuticals and telecommunications & media sectors are most likely to identify material issues, while companies in the trade & retail, automotive and finance sectors are least likely to do so.

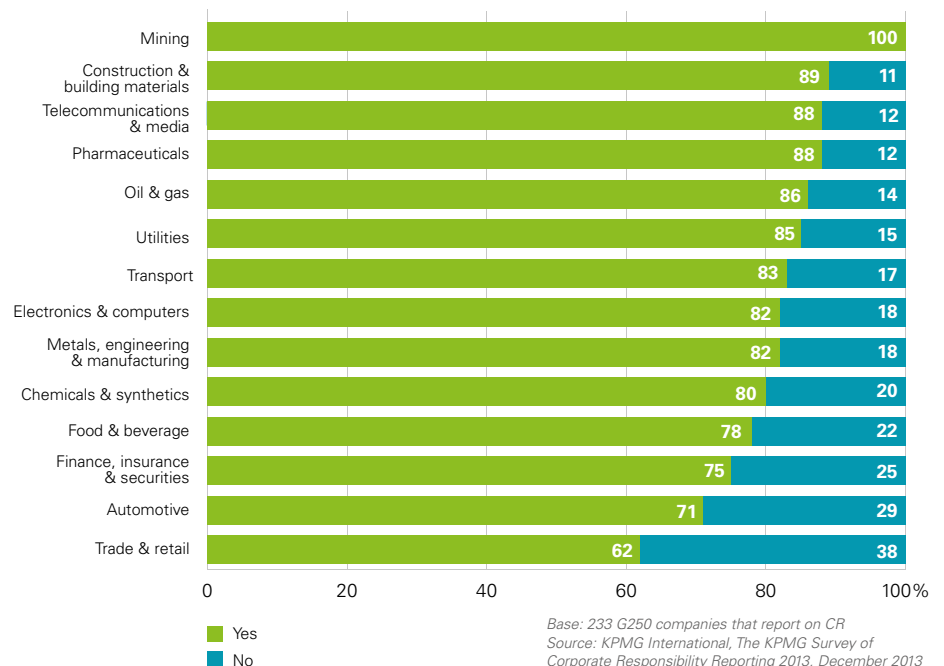
However, our research did not assess whether companies are effective in identifying the right issues. In KPMG member firms' experience, a company's understanding of what is truly material to them and their stakeholders can vary widely. A thorough and ongoing process to identify material issues is essential if materiality is to be useful as a guiding principle for strategic decision making rather than for reporting alone.

"The maturity of mining companies in identifying their material issues is largely a function of the long term horizon of the sector. Companies often have to take a 30-40 year view on their operating environment when making investment decisions. Having a good handle on material issues that may affect these investments is critical to building resilience, managing long term risk and future-proofing the operating model"

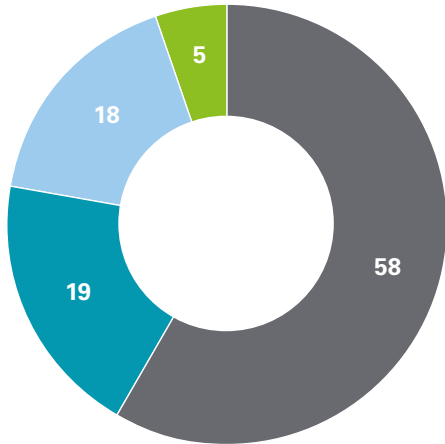


**Wayne Jansen,**  
KPMG's Global  
Head of Mining

**Figure 28:**  
Does the report identify material issues? Sector view.



**Figure 29:**  
How often do companies assess material issues?



- Not stated
- A limited process is in place/infrequent assessment of materiality
- A process is in place to assess materiality at specified intervals (e.g. each reporting cycle)
- A process is in place to assess material issues on an ongoing basis

Base: 180 G250 companies that report on CR and identify material issues  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

### Room for improvement on materiality process

There is room for improvement in terms of explaining how material issues are identified and how often this is done. Many G250 companies are not able, or choose not to, explain the process used. Of the companies that identify material issues in their reports, 41 percent do not explain the process.

Only a small number of G250 companies (5 percent) that report on materiality assess material issues on a continuous basis. European companies in the finance and insurance sector are most likely to do so. In fact, 11 of the 12 G250 companies that continuously monitor materiality are based in Europe, and five of those are banks.

Materiality needs to be integrated into the business with continuous monitoring, so new issues can be assessed as they emerge, not once they have become a risk to the business. Companies that use materiality as a tool for ongoing assessments of risk and opportunity, rather than as a way to meet reporting requirements, are in a stronger position to anticipate and manage risk effectively.

“We are alert to trends as they represent new risks and opportunities that could affect our business and this is fed into the reporting process.”

“Through our materiality process we have identified risks and opportunities that weren’t on our radar before.”

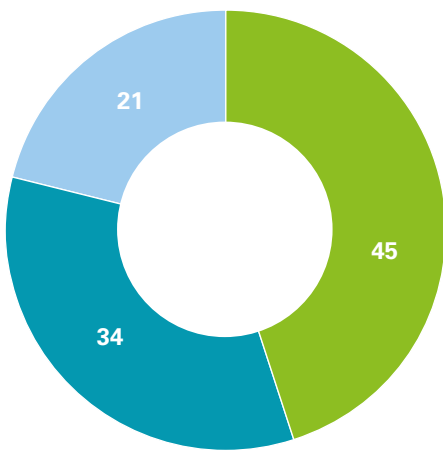


**Leon Wijnands,**  
Global Head of  
Sustainability,  
ING



**Vania Somavilla,**  
Executive Director,  
Human Resources,  
Health and Safety,  
Sustainability and  
Energy, Vale

**Figure 30:**  
Does the report state how stakeholder views are considered in the process of defining material issues?



- Link between stakeholders and materiality process clear
- Limited explanation of link between stakeholders and materiality process
- No explanation

Base: 180 G250 companies that report on CR and identify material issues  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

**More than one third of G250 struggle with stakeholder input to materiality process**

Stakeholder views are critical to a thorough assessment of material issues. Companies that can clearly explain how stakeholders are involved in the process of defining material issues are more likely to reflect the issues that really matter in their reports. Of the companies that report on material issues, less than half (45 percent) clearly explain how stakeholder input is used to identify those issues. The majority (55 percent) offer only partial explanation or no explanation at all.

“We have formally built stakeholder views into our reporting via our materiality process. This includes regular stakeholder forums held around the world, where we hear directly from many of our key stakeholders, complemented by web and media scans, stakeholder surveys and face-to-face meetings.”



**Janet Voûte,**  
Global Head of  
Public Affairs,  
Nestlé

“We listen to a wide range of stakeholders and incorporate their views into our CSR initiatives. The company’s material issues are set based on Nissan’s business activities and stakeholders’ demands. The progress on these issues is managed and reported by using the CSR Scorecard. In addition to the currently included environmental issues, the Materiality Matrix will also include a wider range of subjects in the coming sustainability report.”



**Noriko Ikari,**  
General Manager of  
CSR Department,  
Nissan

“Last year we really focused on materiality for the first time in many years and we are using this to define the content of our report. It is helping us to produce a shorter and more focused report that answers the most important questions.”

**Ellen Jackowski,**  
Living Progress Strategy,  
Hewlett-Packard





# 3: Targets and indicators

Targets and key performance indicators (KPIs) are critical in order to improve CR performance over time, provide a focus for managers and drive innovation.

Robust targets must be linked to the business’s material CR issues; have a clear baseline and timeline for achievement; be measurable; and be supported by clear KPIs for managing and measuring progress.

CR reporting should therefore demonstrate that the company:

- sets performance targets for sustainability that are time-bound with a clear baseline and end date
- assigns targets relevant to its material CR issues
- has a process to measure progress against targets
- is transparent on its performance against CR targets.

## Quality of CR targets is inconsistent across sectors

Most (87 percent) G250 companies that issue CR reports do disclose targets in those reports. This may seem a high rate, but it means that one in 10 reporting companies has no CR targets at all.

In addition, not all disclosed targets are robust. Around one quarter of reporting companies (26 percent) set targets that are not linked to their material issues. Only half (56 percent) back the majority of their targets up with a clear baseline and end date.

“It’s important to combine longer-term strategic targets with objectives for next year. We involve colleagues at all levels in the target setting process. This is very valuable and we end up with better targets.”



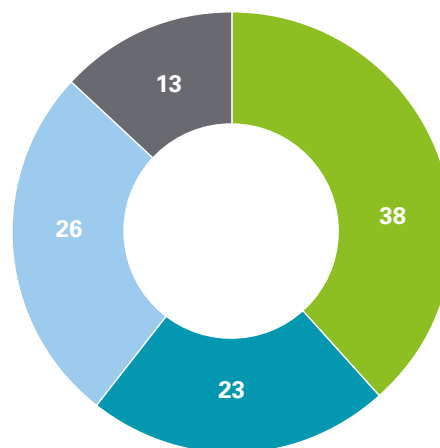
**Ursula Mathar,  
Vice President  
Sustainability and  
Environmental  
Protection,  
BMW Group**

“Food & beverage companies are one of the leading sectors on setting CR targets linked to their material issues. This is largely driven by increasing customer, investor and regulator pressure. The challenges to the food and beverage sector are clearly mounting: there has been a series of high profile food quality scandals recently; NGOs are ranking food businesses on their public reporting, or lack thereof; and tragedies resulting from unsafe manufacturing conditions, are all highlighting the need to move beyond corporate responsibility merely as a brand differentiator. The emotive nature of a sector that produces the food that consumers eat has moved the sector to progress further and faster than many others in understanding material issues, setting priorities and reporting against them. The recent incidents are forcing a ‘warts and all’ approach to reporting and I expect this trend to continue - particularly amongst those businesses that need to engender stakeholder trust.”



**Willy Kruh,  
KPMG’s Global Chair  
of Consumer  
Markets**

**Figure 31:  
Does the report include targets  
relating to material issues?**



- Targets for more than 50% of material issues
- Targets for up to 50% of material issues
- The report contains some targets but it is not clear how these relate to material issues
- There are no targets

*Base: 233 G250 companies that report on CR  
Source: KPMG International, The KPMG Survey of  
Corporate Responsibility Reporting 2013,  
December 2013*

Metals, engineering & manufacturing companies have the lowest rate of target setting. In this sector, four in 10 large companies issue CR reports that lack targets.

By contrast, there are a number of sectors where all reporting G250 companies declare at least some CR targets in their reports (although it is not always clear how they relate to material CR issues). These sectors include pharmaceuticals, transport, mining and construction & building materials.

Three sectors perform well for linking CR targets to material issues: pharmaceuticals, electronics & computers and food & beverage companies.

### Not all large companies report progress against CR targets

Companies in Europe lead when it comes to reporting on how they performed against their CR targets. A healthy 87 percent of European companies that disclose CR targets actually report on performance against all or most of those targets. In the Americas three quarters do (74 percent) and around half in Asia Pacific (58 percent). Three sectors stand out for reporting on their performance against set targets. Of the companies that set targets in their CR reports, 100 percent of electronics & computer companies, 88 percent of pharmaceutical companies and 87 percent of telecommunications & media companies report their performance against all targets set.

“With our environmental goals, we found that securing internal buy-in from executives was critical. We brought a number of executives together to ensure we were setting the right goals and that we had their support to commit the required resources and funding to make progress against these goals over the five-year timeline.”



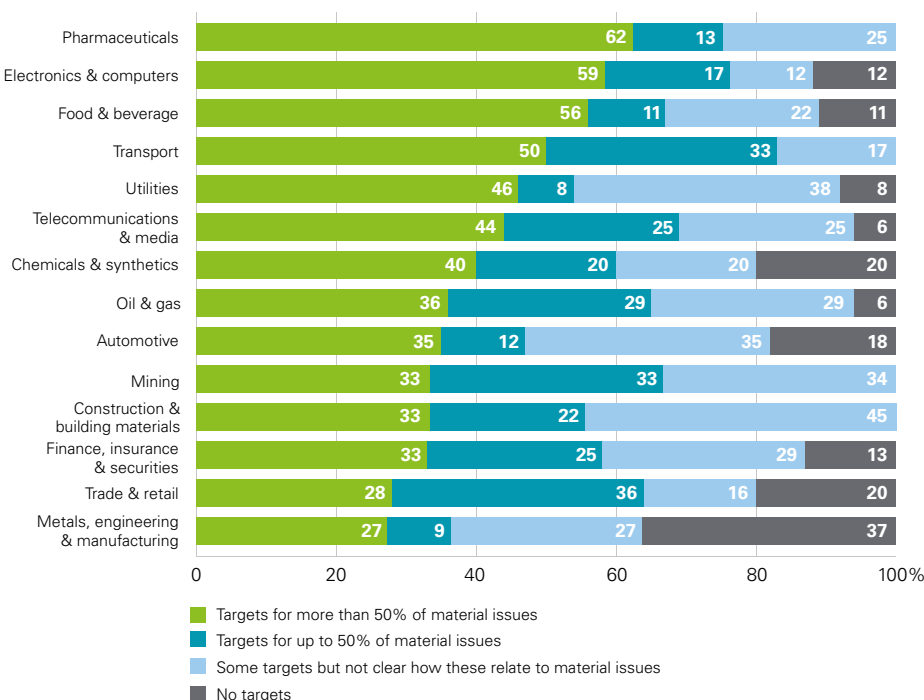
**Kathy Mulvany,**  
Senior Director of  
Corporate Affairs,  
Cisco Systems

“The research shows that the connection between CR plans and action needs to be significantly strengthened in many companies. Whereas almost all large companies report that they have a CR strategy, far fewer back that strategy up with targets for the bulk of their material issues. KPMG member firms recommend that companies conduct a gap analysis on this issue and define a roadmap to improve the link between plans and actions. In addition, declaring targets but not reporting progress against them damages credibility. The research results on transparency show that leading companies are not afraid to be open about challenges and missed targets and find benefits in doing this, such as a renewed company focus on achieving the missed targets.”



**Wim Bartels,**  
KPMG's Global Head  
of Sustainability  
Reporting &  
Assurance

**Figure 32:**  
Does the report include targets relating to material issues?  
Sector view.



Base: 233 G250 companies that report on CR  
Source: KPMG International, The KPMG Survey of  
Corporate Responsibility Reporting 2013, December 2013

“It is clear that sustainability is becoming part of business language and culture in Singapore and across Asia Pacific. However as this survey demonstrates, quantity does not always equate to quality. Some companies report on their CR activities, but show no evidence of robust reporting processes, strategic objectives, or clear KPIs and targets. Developing meaningful KPIs and targets provides substance to strategy. It also sets the foundation for continuous improvement as companies measure performance, identify trends and adapt to future developments. As sustainability reporting continues to mature, we anticipate that other companies across the region will follow the lead of those who have already put in place the critical building blocks of sustainability.”



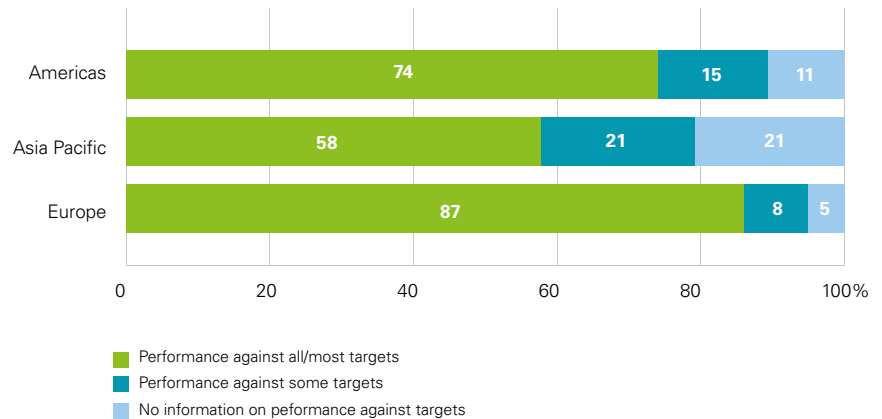
**Sharad Somani,**  
Partner,  
KPMG in Singapore

“Our report has to look backwards at past performance but also be forward looking and goal oriented. This requires two different processes and you have to have a good system in place for both aspects.”



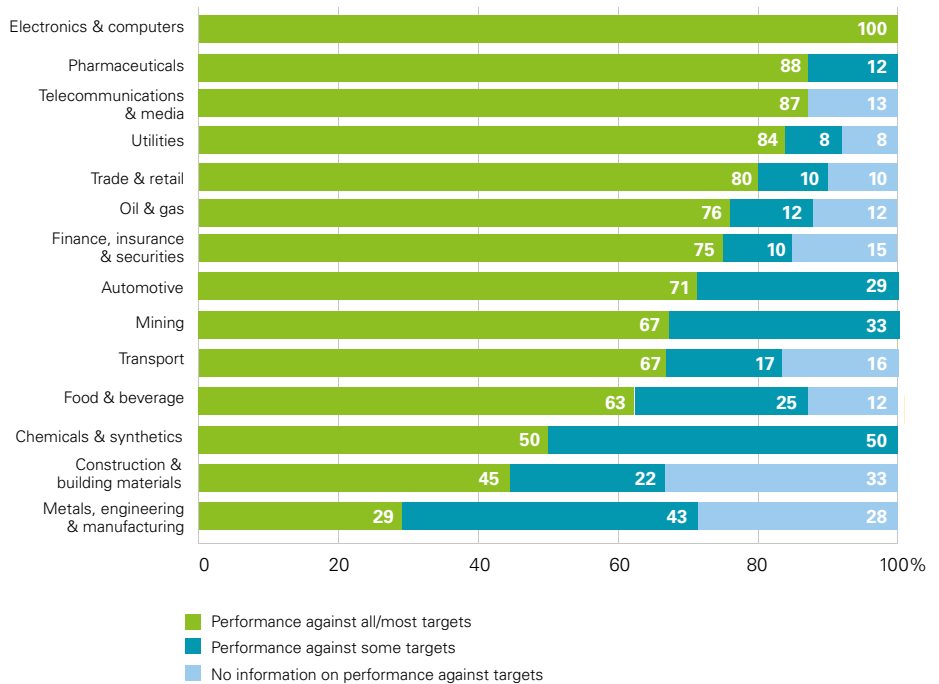
**Leon Wijnands,**  
Global Head of  
Sustainability,  
ING

**Figure 33:**  
Do companies report on performance achieved to date against targets set?  
Regional view.



Base: 199 G250 companies that report on CR and set targets  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

**Figure 34:**  
Do companies report on performance achieved to date against targets set?  
Sector view.



Base: 199 G250 companies that report on CR and set targets  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013



# 4: Suppliers and the value chain

## Growing public concern and scrutiny

A company's most significant CR impacts are often found not in its own operations, but in its value chain – upstream in the social and environmental impacts of its suppliers, and downstream in the impacts of its products and services (through use and disposal).

Recent events, such as the April 2013 collapse of a garment factory in Bangladesh,<sup>8</sup> have increased public attention on the responsibility of large companies to manage their suppliers. In the US, corporate attention to conflict minerals in the supply chain has grown following the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

“Because our supplier network is very large, it is not possible for us to inspect all suppliers to the same extent. We have therefore established a risk-based system of appropriate processes to enable us to systematically identify potential risks in our supply chain. To further encourage sustainable business conduct throughout our entire global supply chain, we are committed to building our suppliers' competence and intensifying knowledge transfers.”

**Kersten-Karl Barth,**  
Director of Corporate Sustainability,  
Siemens

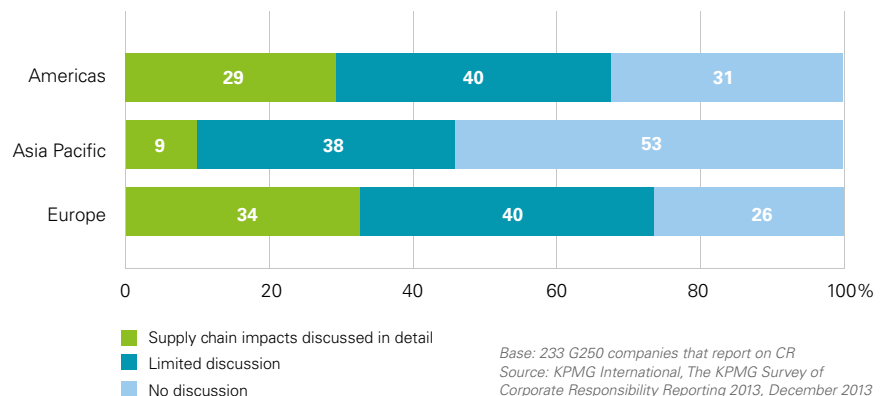
The new GRI G4 Guidelines also include a greater focus on the supply chain, reinforcing the importance of management and disclosure in this area, and the IIRC is encouraging more disclosure around the value chain through its IR framework. Assessing impacts in the supply chain is more complex than measuring companies' own impacts, and measurement methodologies are subject to more uncertainties. However, that should not prevent companies from partnering with their suppliers to improve environmental and social footprints. Indeed, the risks of not doing so increase every year.

CR reporting should therefore demonstrate that the company:

- has identified the social and environmental impacts associated with its suppliers and has established systems for managing them

- has formalized CR requirements for its supply chain and has mechanisms in place to improve supplier performance (such as a supplier code of conduct and CR criteria for supplier selection)
- works with suppliers to help them improve CR impacts over time
- audits suppliers against its code of conduct
- sets targets for reducing the impact of its supply chain and measures progress against them
- has identified the social and environmental impacts associated with the use and disposal of its products and services.

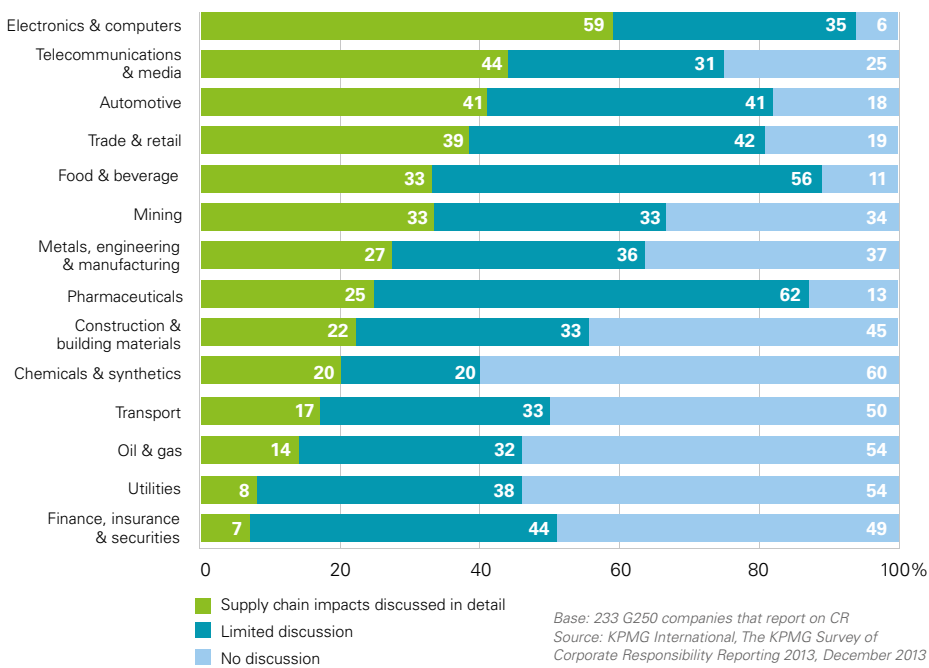
**Figure 35:**  
Do companies discuss the sustainability impacts of their supply chain?  
Regional view.



<sup>8</sup> <http://www.bbc.co.uk/news/world-asia-22420025>.



**Figure 36:**  
Do companies discuss the sustainability impacts of their supply chain?  
Sector view



**Supply chain reporting is low in sectors with significant potential impacts**

Around two thirds (64 percent) of G250 companies that report on CR include some discussion of supply chain issues in their reports.

In both Europe (74 percent) and the Americas (69 percent) a clear majority of companies that report on CR include this issue, but in Asia Pacific companies that do so are the exception rather than the rule (47 percent). Most of the G250 companies that do not report on this issue are based in China (incl. Hong Kong) and Japan.

“Increasingly the world has stronger expectations around companies and their supply chain – there are many stories to be told but you have to get into your supply chain to really understand what is happening. You can’t manage what you don’t measure.”

**Ellen Jackowski,**  
Living Progress Strategy,  
Hewlett-Packard



The companies least likely to report on supply chain issues at all are those in the chemicals & synthetics sector (60 percent that report on CR do not report on supply chain issues), utilities (54 percent), oil & gas (54 percent) and transport (50 percent) sectors.

This is surprising given the scale of potential impacts in the supply chains of these sectors. For example, supplier management issues were reported to be at the core of the recent oil rig disaster in the Gulf of Mexico.<sup>9</sup> Covering value chain issues in detail in CR reports provides an opportunity for companies to show stakeholders, including investors, that potential impacts have been identified and are being properly managed.

While a majority of G250 companies overall do report on supply chain issues, much of the discussion in CR reports is limited. The number of large companies that report in detail is far lower. In fact, there is only one sector in which a majority of reporting G250 companies publish detailed discussion of CR issues in the supply chain: electronics & computers (59 percent).

In all the other sectors, detailed reporting on this issue is still a minority activity, although telecommunications & media (44 percent), automotive (41 percent) and trade & retail (38 percent) have higher rates than other sectors.

The lowest rates of detailed reporting on the supply chain are seen among chemicals & synthetics companies (20 percent), oil & gas (14 percent), transport (17 percent), utilities (8 percent), and finance & insurance (7 percent).

*"We outsource all our manufacturing so, understandably, our stakeholders care a lot about what is happening in our supply chain as well as our own operations. On greenhouse gas emissions, for example, we try to lead by example by being transparent about our own emissions and asking our suppliers to do the same."*



**Kathy Mulvany,**  
Senior Director of  
Corporate Affairs,  
Cisco Systems

*"CR in the supply chain is not easy to manage and not easy to report on. The issues are very diverse, ranging from improving working conditions in factories across the world to sourcing more responsible agro-commodities and improving the livelihoods of the farmers involved. Cooperation with suppliers is key; not only for managing issues in the supply chain, but also to build strong reporting lines. I expect some of the frontrunners to report on the supply chain in a totally different way in a few years. The next challenge is to report on the true value of the company, taking both positive and negative environmental and social impacts into account. This helps them to take strategic decisions on the future course of the company and allows readers to better understand the very nature of the business."*



**Bernd Hendriksen,**  
Partner,  
KPMG in  
the Netherlands

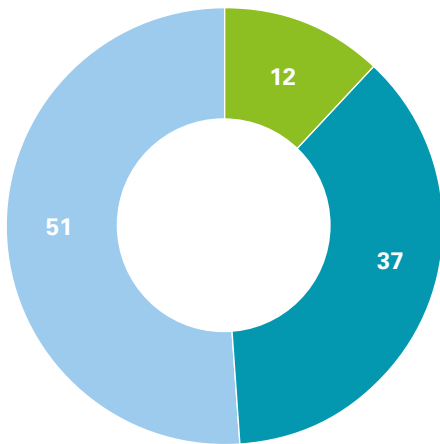
<sup>9</sup> <http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/7990445/BP-oil-spill-contractors-singled-out-as-report-identifies-eight-key-failings.html>



### Reporting on supply chain targets is patchy

Less than half of reporting G250 companies (49 percent) declare any targets for the management of the environmental and social impacts of their supply chain. Of those that do declare supply chain targets, less than half (49 percent) report progress against the majority of those targets. This suggests there is still a way to go before achievements catch up with aspirations in this area. Improved transparency on progress will help to build trust and credibility among stakeholders.

**Figure 37:**  
Target setting for supply chain impacts



- Yes comprehensive targets set for supply chain improvements
- Yes some targets set for supply chain improvements
- No targets set for supply chain improvements

Base: 233 G250 companies that report on CR  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

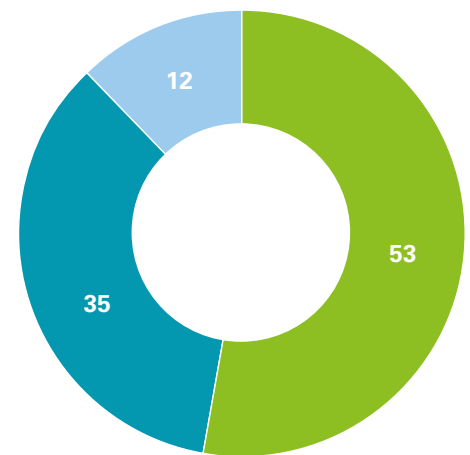
### European companies lead in reporting on impacts of products and services

G250 companies in Europe are the most likely to discuss in detail the environmental and social impacts of their products and services. Almost three quarters of European companies that report on CR (73 percent) do so, with a further 23 percent providing limited information.

In the Americas, half (49 percent) of reporting companies provide detailed information on downstream impacts and the figure drops to less than one third (32 percent) in Asia Pacific.

The leading sectors for detailed reporting on the impacts of products and services are: telecommunications & media (94 percent), electronics & computers (82 percent) and pharmaceuticals (75 percent). Companies in the oil & gas sector (18 percent) and metals, engineering & manufacturing (9 percent) are least likely to do so.

**Figure 38:**  
Does the report discuss the impacts of products and services?



- Yes, impacts discussed in detail
- Yes, limited/high level discussion
- No discussion

Base: 233 G250 companies that report on CR  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

“Transparency is crucial to build trust with our suppliers and to recognize and manage potential risks. We work with suppliers to develop CR initiatives together and give them time to address issues, rather than relying solely on supply chain audits and ratings.”

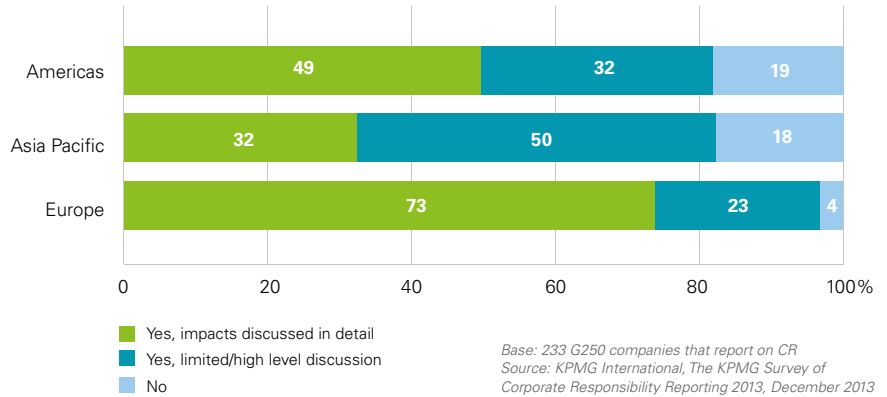
**Jong Sik Kim,**  
Chief Operating Officer/President,  
LG Electronics

“Telecommunications and electronics companies stand out for reporting on the environmental and social impacts of their products and services. These companies have strong brands that rely on positive consumer perceptions. They also have good stories to tell about their positive contributions to the environment and society: such as the power of telecommunications to connect people and reduce carbon emissions from travel, and the role of technology in smarter, more resource efficient cities.”

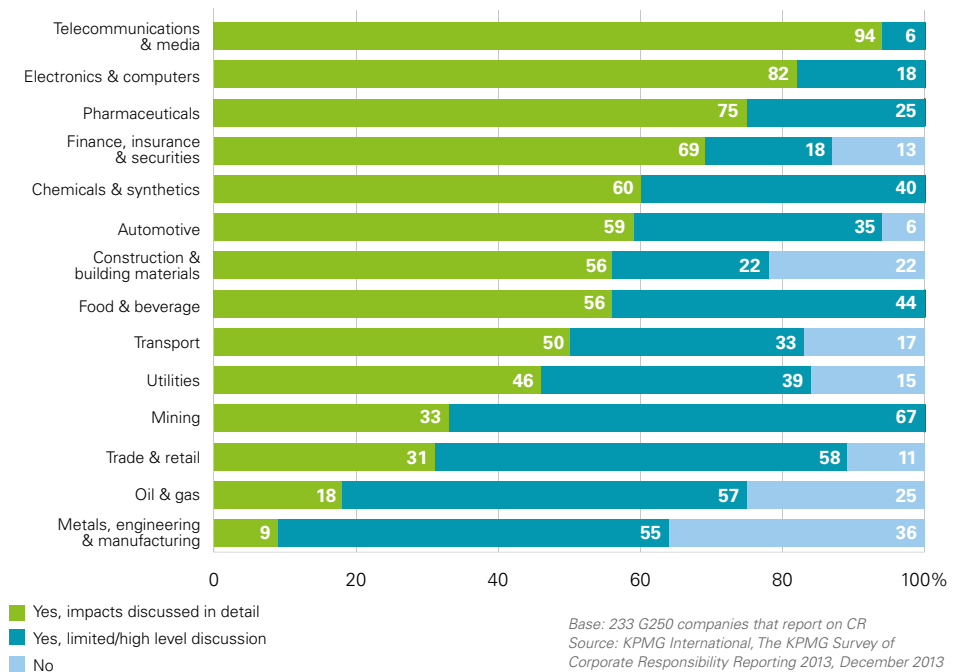


**Gary Matuszak,**  
KPMG's Global Chair  
for Technology,  
Media &  
Telecommunications

**Figure 39:**  
Does the report explore the impacts of products and services?  
Regional view



**Figure 40:**  
Does the report explore the impacts of products and services?  
Sector view.





# 5: Stakeholder engagement

## Stakeholder engagement is increasingly important in the digital age

Today's businesses operate in an age of transparency, where the internet and social media have created a global community of active and engaged stakeholders. Expectations of companies are higher than ever before in both developing and developed countries and trust in business is more easily damaged.

Companies therefore need to reach out to an ever wider group of stakeholders, more often and in more interactive ways. By doing so they can benefit from stakeholder input to identify material issues, monitor and communicate performance and learn from other perspectives and ideas.

Stakeholder engagement is both a means of avoiding conflict and protecting reputation, and a source of innovation and insight into future risks and opportunities.

CR reporting should therefore demonstrate that the company:

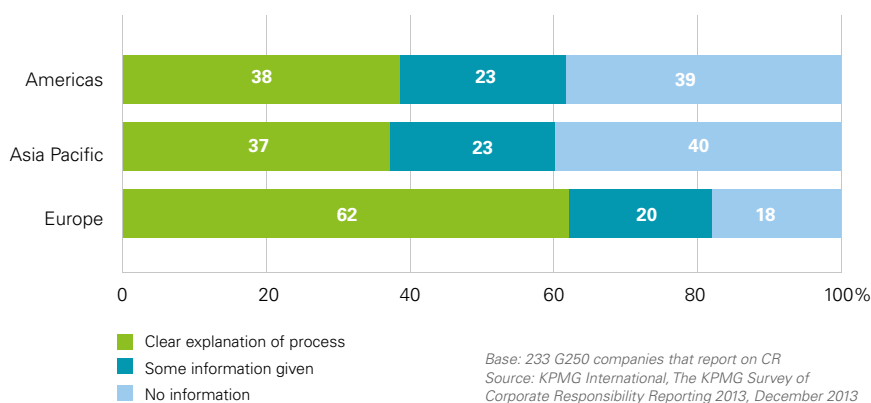
- has a process in place to identify and engage key stakeholders
- responds to stakeholder feedback and takes action where necessary
- seeks out stakeholder views on its reporting and performance (for example through a stakeholder advisory panel) and reports these openly.

"Stakeholder engagement has always been an important activity in CR reporting but it can be a double-edged sword. Historically the unwary have perhaps steered strategy to the loudest or most frequent voices rather than the most material issues. Our research provides some evidence this is abating, but I believe that managing relationships and collaborating more effectively has become a core strategic competence in a more interdependent world. Through the work KPMG member firms have done with clients in Australia, South Africa and the UK, we know companies benefit from turning engaged stakeholders into allies, partners and friends."



**Vincent Neate,**  
Partner,  
KPMG in the UK

**Figure 41:**  
Does the report include clear information about the process used to engage stakeholders? Regional view.



"The process of producing and publishing the report has changed the way we see our relationships with stakeholders and society. It has changed our company culture for the better."



**Murilo Ferreira,**  
Chief Executive,  
Vale

**Strong overall performance: mining, metals, engineering & manufacturing score highest**

Overall, the G250's CR reporting performance on identifying stakeholders is strong. Three quarters (77 percent) of reporting companies identify key stakeholders in their CR reports.

Companies in Europe and Asia Pacific are more likely to do so (eight out of 10) than companies in the Americas (only five out of 10).

Mining (100 percent) and metals, engineering & manufacturing companies (91 percent) perform most strongly among industry sectors in terms of identifying their key stakeholders in their CR reporting.

“The importance of identifying stakeholders for mining companies has grown as exploration and operations have moved into developing countries and frontier regions where stakeholder relationships can be complex and difficult to navigate. Managing stakeholder relationships has become key to securing a social license to operate and to building a social compact with governments, regulators, other producers, communities and employees. Building and maintaining trust, creating shared value and collaboration are going to be critical elements of managing stakeholder relationships in the future.”



**Wayne Jansen,**  
KPMG's Global  
Head of Mining

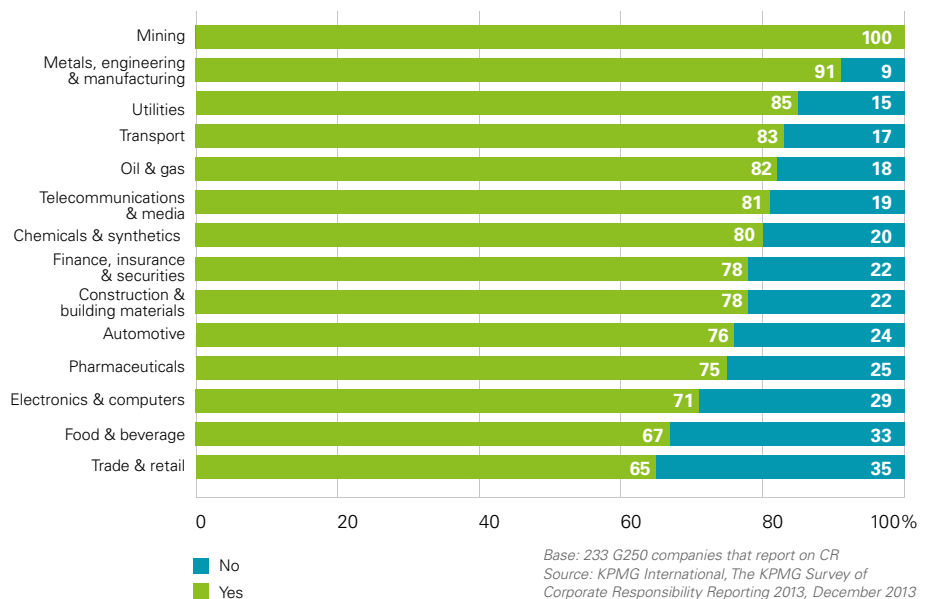
However, when it comes to explaining the process used to identify stakeholders, G250 companies in Asia Pacific and the Americas lag behind those in Europe, with around four in 10 companies offering no explanation at all. Less than two in 10 European companies give no explanation of the process. Clarity on the process used to engage stakeholders is crucial. Without it, there is no way to assess whether a company's engagement program is effective or not. A high proportion of G250 CR reports (77 percent) include information on how the company has responded to at least some stakeholder feedback.

**More space needed for stakeholder voices**

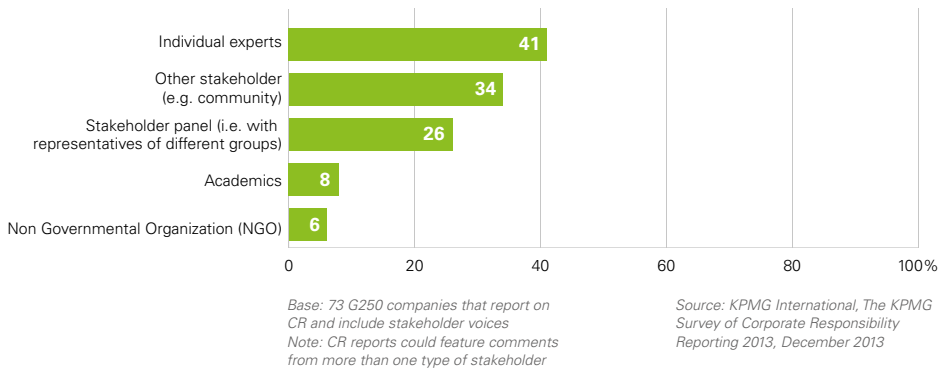
One of the ways a company can demonstrate its commitment to engaging with stakeholders is to feature independent stakeholder comments within its CR report. Comments that include both criticism and praise build authenticity and emphasize a company's commitment to transparent reporting.

However, giving voice to potential critics remains challenging for most companies: currently only one third (31 percent) of G250 CR reports include stakeholder comments. Of reports that do communicate third party views, one quarter (26 percent) include comments from a stakeholder panel, a formalized way of engaging with representatives from different groups.

**Figure 42:**  
Does the report identify the company's key stakeholders? Sector view.



**Figure 43:  
Stakeholder voices in reporting**



“Social media is changing the way companies report. Many companies are using social media tools and technologies to communicate their CR activities, and in particular their CR reporting content. Social media enables companies to communicate more frequently on their CR efforts, expand the reach of their sustainability messages, receive feedback and enhance transparency with stakeholders. This expanded reach is also viewed as a risk mitigation technique by some, to elevate their social capital in the event of negative developments.”



**John Hickox,  
Partner,  
KPMG in the US**

“Engaging with external stakeholders is definitely an important part of having a good report. But we don’t do this just for our report, we talk to stakeholders to ensure that we have a good citizenship strategy, and this feeds into our report.”

**Ellen Jackowski,  
Living Progress Strategy,  
Hewlett-Packard**

“The importance of stakeholder engagement can’t be overstated. This link to the outside world is essential and we have made it a priority to increase our capacity to engage effectively with our stakeholders.”



**Janet Voûte,  
Global Head of  
Public Affairs,  
Nestlé**



# 6: Governance of CR

## Accountability is key

Companies that take CR seriously have clear governance structures and accountability for CR at the highest levels of the organization. Board-level commitment and interest in CR issues can be a crucial factor in ensuring that CR is embedded in an organization, is adequately resourced and the correct systems and processes for managing issues are implemented.

In an organization where leaders and employees have many competing priorities and limited budgets, linking CR performance to remuneration can be essential in making sure that necessary investments are made and that CR targets are achieved. The quality of CR governance can be hard to assess from the outside, but CR reports can provide an insight into company approaches and their likely effectiveness.

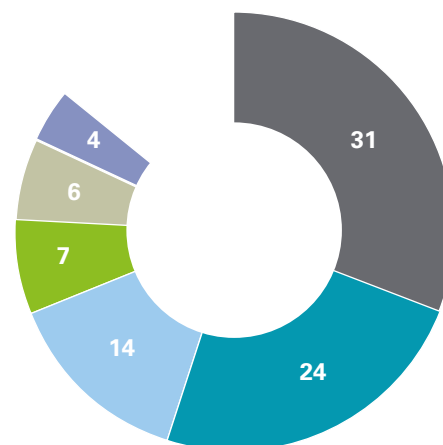
CR reporting should therefore demonstrate that the company:

- has appointed a primary person and/or function with ultimate responsibility for CR at the highest levels of the organization
- has an individual/function that manages sustainability on a day-to-day basis and reports to the company board
- links sustainability performance to remuneration.

## CR is a board-level concern

The research suggests that CR is taken more seriously than ever as a core business issue by the world's largest companies, with around two thirds (69 percent) of companies that report on CR clearly identifying who has ultimate responsibility for CR at the company. For most companies, this reaches the very top of the organization, with 24 percent of reporters pointing to the company board, and a further 20 percent naming a specific individual on the board – either the CEO or another board member in a non-sustainability function (such as the Chief Financial Officer, Chief Operating Officer, audit or risk). Seven percent of reporting companies state the person ultimately responsible is the Chief Sustainability Officer, who may also be a member of the board.

**Figure 44:**  
Who has ultimate responsibility for CR?



- No one identified as responsible for CR
- Company Board
- CEO
- Chief Sustainability Officer
- Board members in another function e.g. risk, audit
- Senior manager that is not a board member
- Other

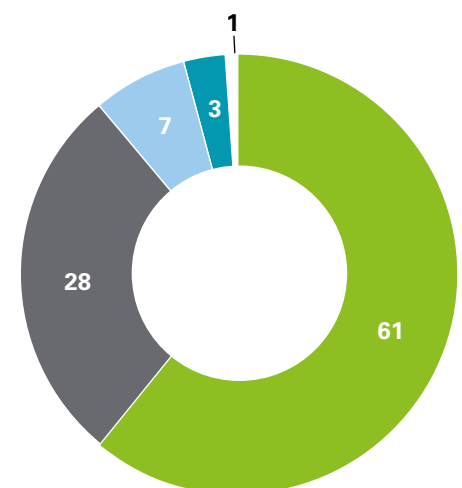
Base: 233 G250 companies that report on CR  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

“Bill Ford created our department and continued commitment at the most senior level is reflected in the senior executive letters in our report. We have support from the top down and that has enabled us to report in a more credible way.”



**John Viera,**  
Global Director of  
Sustainability,  
Ford Motor Company

**Figure 45:**  
Which function has responsibility for managing CR on a day-to-day basis?



- CR/sustainability unit (separate)
- Not reported
- Other
- Public relations/communications department
- Risk department

Base: 233 G250 companies that report on CR  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

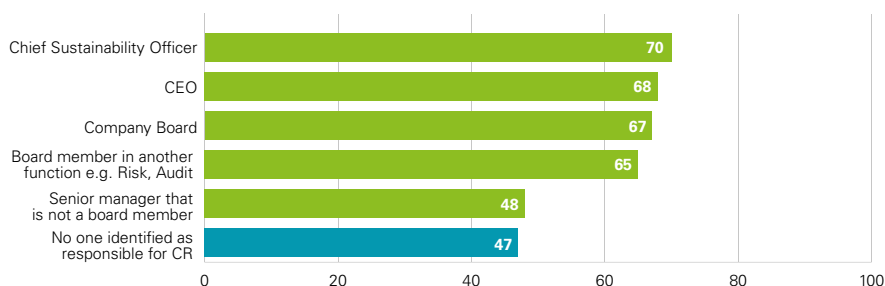


Most G250 CR reports (61 percent) specify that a dedicated CR or sustainability unit manages CR on a day-to-day basis. On the one hand, this could be seen as a positive sign that most G250 companies have prioritized CR and allocated the resources to ensure that a specific function within the organization is tasked with measuring, monitoring and reporting on CR performance. On the other hand, the number of dedicated CR units within G250 companies could be seen as an indication that CR continues to be managed as a separate consideration rather than being embedded into existing functions of the company. It is also not always clear where the dedicated CR unit reports to.

### Senior leadership produces better quality CR reports

Companies where responsibility for CR sits with the CEO, company board or Chief Sustainability Officer score significantly higher for the quality of their CR reports than companies that do not state who has ultimate responsibility for CR.

**Figure 46:**  
**How does leadership impact reporting?**  
**Average report quality score by type of leadership.**



Base: 233 G250 companies that report on CR  
 Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

“The reporting process has helped introduce the language of sustainability into the company. In the past, many departments were implementing some sustainable practices, but did not call them this. Our sustainability reporting team has helped to bring these diverse initiatives together into a more structured approach to sustainability.”



**Weijun Xie,**  
**General Manager,**  
**Department of**  
**Resource**  
**Development,**  
**China Minmetals**  
**Mining Holdings Ltd.**

“Across the companies successful at embedding sustainability in business-as-usual there is a common theme emerging of the sustainability team as business partners, very like the models adopted for best practice in finance and HR. A small core group acts as the center of excellence but responsibility for communication, innovation and action is clearly disseminated through the network of line-managers in business units or divisional champions taking a facilitative or supportive role. Embedding CR rather than having it as an activity carried out by a few on behalf of the many is key to an authentic sustainability program.”



**Vincent Neate,**  
**Partner,**  
**KPMG in the UK**

**CR performance not yet linked with remuneration**

Companies that link employee remuneration to performance on social and environmental issues demonstrate to employees, investors and other external stakeholders that they are serious about CR performance and about ensuring the long term viability of the company. This can be challenging for companies to implement, and as a result, the overwhelming majority (78 percent) of G250 companies do not report a link between CR performance and remuneration of executives or employees at any level.

Of the small group of leading companies (22 percent) that discuss the link between CR and remuneration in their CR reports, two thirds are headquartered in Europe. France, Germany, the Netherlands and the UK

stand out for having a significant number of companies that report on the link between CR performance and remuneration. In the UK it is likely that this is related to historic regulation over disclosure of executive remuneration linked to company law, and in Germany to the requirements of the German Code of Governance where transparency on executive remuneration is explicitly defined, leading to greater acceptance of the idea of reporting on the link between remuneration and CR.

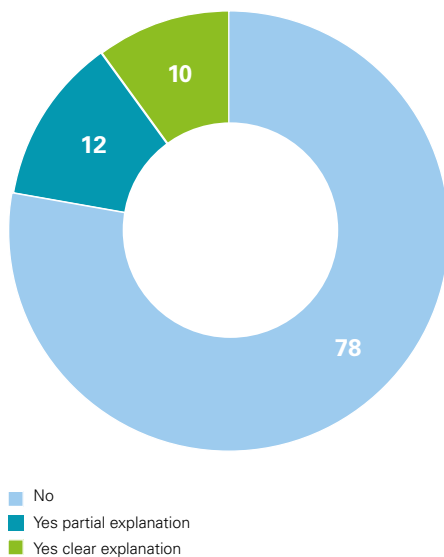
Outside Europe, four out of five Australian companies in the G250 disclose how staff are remunerated in relation to CR performance. This may be because balanced scorecards that include health, safety and environment issues are often used to determine executive bonuses in Australia.

“CR is part of the balanced scorecard and our quarterly reporting framework, used right across the business to report on progress in key areas.”



**Josh Hardie,**  
Corporate Responsibility Director,  
Tesco PLC

**Figure 47:**  
Is there a link between performance and remuneration?



Base: 233 G250 companies that report on CR  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

“Our sustainability action plan has targets for every operation and this is linked to our compensation. Everyone in the business, even our CEO, has 20 percent of their additional bonus linked to performance on our sustainability indicators.”



**Vania Somavilla,**  
Executive Director,  
Human Resources,  
Health and Safety,  
Sustainability and  
Energy, Vale

“All board members are part of the BMW sustainability board so we have a team approach even at the most senior level. Sustainability is integrated into our target-setting processes and linked to remuneration, which is very motivating.”



**Ursula Mathar,**  
Vice President  
Sustainability and  
Environmental  
Protection,  
BMW Group



# 7: Transparency and balance

## Openness about challenges and setbacks is essential for building trust

If CR reports are to build trust between an organization and its stakeholders, they need to provide reliable information about company sustainability performance over time and to be open about CR challenges and setbacks, as well as achievements.

Leading companies give readers a clear picture of their CR performance over time, presenting performance data that can be easily compared from year to year, regardless of whether the trend highlights areas of success or failure.

CR reporting should therefore demonstrate that the company:

- acknowledges challenges, dilemmas and failures, as well as achievements
- uses data to monitor performance year after year and makes this available to stakeholders.

## Comparability of data is strong but most reports lack balance

Despite the importance of transparency, only one in five G250 companies (23 percent) achieves well-balanced reporting. Most provide only limited or no discussion of challenges and setbacks. Companies in Europe are most likely to report openly on reporting challenges with those in Asia Pacific least likely to do so. The number of companies providing discussion of challenges and setbacks is particularly low among companies in China (incl. Hong Kong) with only 3 percent of companies providing a well-balanced view of CR performance.

Companies in the food & beverage, pharmaceuticals and electronics & computers sector stand out for providing well-balanced reports that discuss challenges as well as achievements. The chemicals & synthetics, metals, engineering & manufacturing and construction & building materials sectors have the lowest overall rate of balanced reporting and the greatest proportion of companies that do not discuss challenges at all in their CR reports.

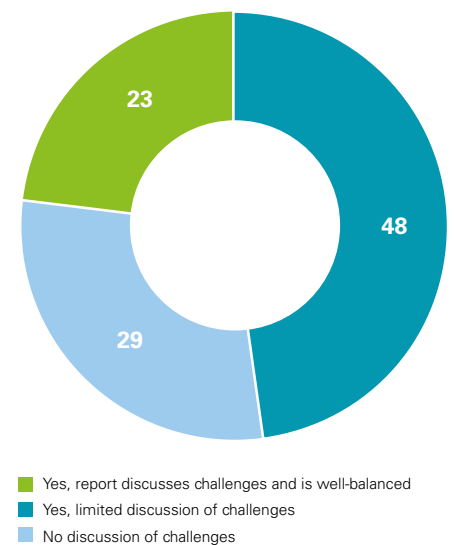
Most companies (88 percent) include at least some data points that can be easily compared with previous years, enabling stakeholders to assess progress over time. Countries in Europe score highest on comparability of data, most likely due to having more established processes for tracking and reporting on data over time.

“Transparency is a well-recognized principle for effective reporting, and to achieve this, companies must provide stakeholders with a balanced account of progress. However, achieving balanced disclosure can be challenging for companies who may be uncomfortable with admitting mistakes or fear it may expose them to criticism or even legal risk.”



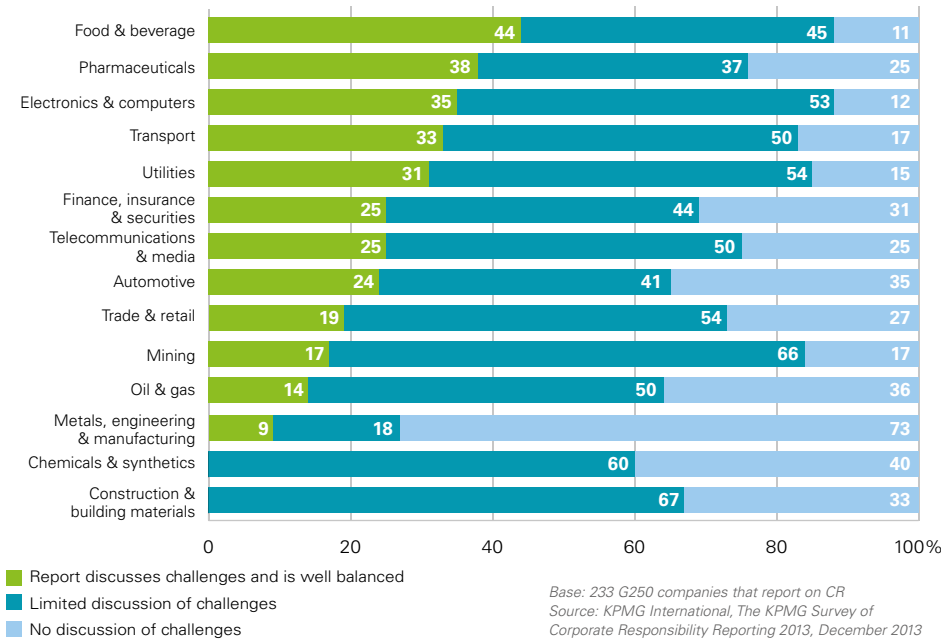
**Jose Luis Blasco Vazquez,**  
Partner,  
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**Figure 48:**  
Does the report discuss challenges/ dilemmas/ failures, as well as achievements?

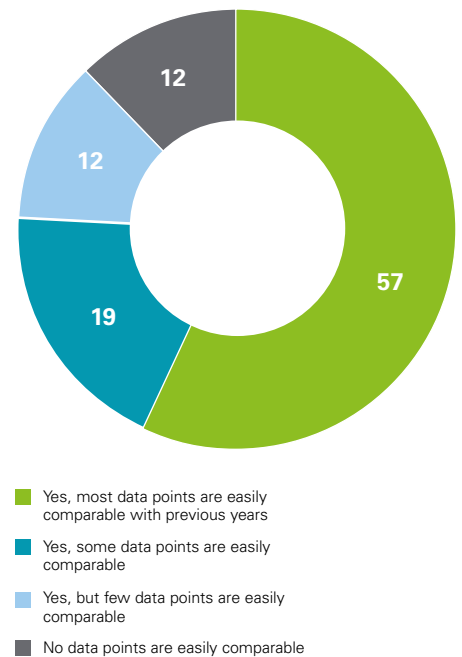


Base: 233 G250 companies that report on CR  
Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

**Figure 49:**  
Does the report discuss challenges/dilemmas/failures, as well as achievements?  
Sector view.



**Figure 50:**  
Does the report present data for previous years that can be easily compared against the current year?



“We have started to use our report to be more forward looking, seeking to cover the more controversial issues, those that might keep the board awake at night. It is important to the board that our report is a true reflection of our business and the issues our stakeholders are concerned about. It must show both our successes and the challenges, telling the whole story.”



**Vania Somavilla,**  
Executive Director,  
Human Resources,  
Health and Safety,  
Sustainability and  
Energy, Vale

“High-level commitment to transparency is very important to the quality of the report you end up with. Transparency helps us solve problems, and there’s no doubt it contributes to better interactions with external stakeholders. In today’s world of social media you can’t afford not to be transparent, it is the only way forward.”



**Janet Voûte,**  
Global Head of  
Public Affairs,  
Nestlé



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“In order to be transparent, you have to be systematic. It can be difficult to tell the bad stories about what has not gone so well along with the good stories, but it’s important readers see that you are presenting a balanced view.”



**Annette Stube,  
Director of Group  
Sustainability,  
A.P. Møller Mærsk**

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“I think we still have some way to go before stakeholders fully trust the information they read in company reports. Transparent reporting on failures does help with this.”

**Bertrand Janus,  
Head of CSR Reporting,  
Total**

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# About KPMG's Climate Change & Sustainability Services

## About KPMG's sustainability services

KPMG is one of the pioneers of sustainability consulting – some KPMG member firms first offered sustainability services over 20 years ago – which gives KPMG's network a level of experience few can match. Today our network employs several hundred sustainability professionals located in around 60 countries.

## Local knowledge, global experience

Our global network means KPMG professionals have in-depth understanding of the economic, political, environmental and social landscapes wherever your organization may operate. At the same time, our member firms are closely connected through our global Center of Excellence.

This means that, whatever challenge you face, we can put together a team with international experience to help you.

## Sustainability Plus

We don't work in a sustainability vacuum. We work side-by-side with KPMG professionals from tax, audit and advisory including sector specialists, management consultants, tax accountants and experts in IT, supply chain, infrastructure, international development and more. You won't receive generic advice and one-size-fits-all solutions, instead you can benefit from a hand-picked multi-disciplinary team.

## Results-driven

KPMG firms help clients to develop future-fit business strategies based on solid understanding of the issues. We strive to think big and challenge convention, but with implementation in mind, working with you to find practical solutions that can create success and growth through change.

## Foresight needs insight

Our global Center of Excellence focuses on thought-provoking research, analyzing drivers of global change and developing practical business responses that you can apply within your own organization.

## Specialists in CR reporting and assurance

Reporting on environmental and social performance is now leading practice in business wherever in the world you may operate.

Stakeholders from investors to NGOs want to know that a company has identified its most significant environmental and social risks and impacts, and is addressing them effectively. They also need to know that the information provided by a company is accurate, credible and can be trusted.

Momentum is also building towards integrated reporting which provides a holistic overview of an organization's financial and non-financial performance.

KPMG member firms can help your organization to:

- Understand what environmental and social information you should report
- Choose the right reporting approach and frameworks for your business
- Integrate financial and non-financial information in your reporting
- Report information for specific purposes such as the Carbon Disclosure Project and sustainability indices
- Benchmark the quality of your reporting against industry peers

- Provide independent assurance for your internal and external reporting systems
- Provide independent assurance of your sustainability performance reporting
- Verify the sustainability performance of your suppliers.



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