

# **Investor Statement on Sustainability Reporting in Emerging Markets A Renewed Call to Action - February 2010**

## **Introduction**

The signatories to this statement recognize the important role corporate environmental, social and governance “ESG or sustainability” reporting plays in helping investors to determine which companies are best positioned to deliver strong, long-term investment performance. At the same time, companies increasingly understand that effective management of sustainability challenges and opportunities can contribute directly to financial success by:

- Allowing companies to reach a broader range of investors.
- Achieving greater operational efficiency.
- Improving enterprise-wide risk management.
- Making more strategic capital expenditures decisions.
- Enhancing customer loyalty and developing new customers.
- Improving brand positioning and value.
- Developing and maintaining market leadership.

However, for such actions to be properly valued by financial markets, companies must disclose information about their ESG programs and the progress made toward meeting specific ESG business objectives. For this reason, more than 2,300 global companies, including more than two-thirds of the constituents in the Global FT 500, issued sustainability reports in 2008.<sup>1</sup>

## **Why Sustainability Reporting**

Disclosing environmental and social performance data is critical to investors for evaluating:

- Financial health and risk management, as this information augments financial analysis by indicating material risks and potential liabilities that are often overlooked by general accounting standards.
- Management quality, as ESG issues management can be used as a proxy for strong corporate governance and serve as an indicator of a company’s overall management quality.
- Competitive positioning, as firms in emerging markets are increasingly competing globally and will be assessed according to their ability to comply with evolving international standards such as the European Union’s Restriction of Use of certain Hazardous Substances Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) regulations. In addition, home country

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<sup>1</sup> CorporateRegister.com. (March 2009). *CRReportingAwards '08, Global Winners & Reporting Trends*. Retrieved Feb. 16, 2010, from <http://www.corporateregister.com/pdf/CRRA08.pdf>.

standards are changing quickly and creating opportunities for companies with forward looking environmental and labor policies and programs to distinguish themselves.

- Growth potential, as there is a large and growing body of evidence indicating that companies that are pro-active environmental stewards, responsible corporate citizens and strong employers are more likely to create long-term shareholder value.

### **Sustainability Disclosure in Emerging Markets**

As emerging market companies continue to grow in significance in the global economy, so do investor expectations for these companies. Emerging markets represent important investment areas, but a lack of transparency can hamper potential investment. Specifically, investors often do not have enough information on the manner in which companies in emerging markets have assessed and responded to risks and opportunities related to sustainability issues—and how these risks and opportunities might affect future financial performance and valuation.

In particular, the signatories to this statement encourage all companies to enhance transparency by working toward:

- Providing regularly updated ESG disclosure in financial reports or in specialized sustainability reports, focusing on the most material business risks and opportunities.
- Setting clear sustainability goals and disclosing progress towards meeting targets.
- Using the Global Reporting Initiative (GRI) framework in preparing their reports. At a minimum, we recommend that companies list exactly which GRI indicators are addressed in their reports as part of a “GRI Index.”
- Continually improving their reporting based on feedback from key stakeholder groups, including both financial stakeholders and non-financial stakeholders, such as employees, customers, and relevant community and civil society groups.

The EMDP’s most recent baseline study underscores the need for improved reporting in emerging markets.<sup>2</sup> It found that while 96 percent of the 100 largest emerging market companies reported on at least one ESG factor, only 14 of the 100 declared reporting in accordance with the GRI’s guidelines, with a mere 20 making reference to the GRI. Furthermore, of the 28 companies in the study listed as signatories to the United Nations Global Compact, only 18 (64 percent) produced a Communication on Progress (COP) and/or a GRI report in compliance with the Compact’s reporting requirements. In addition, only 30 percent of the companies offered any climate-related information.

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<sup>2</sup> Emerging Markets Disclosure Project. (December 2009). *Corporate Sustainability Disclosure in Emerging Markets*. Retrieved Feb. 16, 2009, from [http://socialinvest.org/projects/iwg/documents/EMDP\\_UNCTAD\\_REPORT.pdf](http://socialinvest.org/projects/iwg/documents/EMDP_UNCTAD_REPORT.pdf).

## **Why the GRI**

We urge companies to use the GRI's third generation, G3 Sustainability Reporting Guidelines ("Guidelines") to inform company reporting, and in so doing, increase the credibility, comparability, and utility of their reporting efforts. A GRI-based report also serves as a strong "Communication on Progress" for corporate signatories of the Global Compact.

The Global Reporting Initiative ([www.globalreporting.org](http://www.globalreporting.org)) is an international organization developed by businesses working with a broad base of global organizations. The GRI provides guidance on sustainability reporting process and content through the GRI Guidelines, a flexible reporting system that allows companies to focus on the issues most relevant to company operations.

More than 1,000 organizations globally currently use the GRI Guidelines in developing their sustainability reports. In fact, of the 3,100 companies issuing sustainability reports in 2008 tracked by CorporateRegister.com, approximately one third followed the GRI's guidelines in issuing reports, making it the most widely used standard. worldwide<sup>3</sup> Similarly, KPMG found that 60 percent of the Global Fortune 250 and more than 30 percent of the 100 biggest companies worldwide by revenue used the GRI guidelines in their reporting in 2008.<sup>4</sup>

## **Conclusion**

The signatories to this statement believe that the next generation of leading companies will distinguish themselves through their commitment to sustainability, as demonstrated through robust sustainability reporting, and will be correspondingly rewarded by the market.

## **2008 Signatories (TO BE UPDATED):**

1. Australian Ethical Investment Ltd.
2. Batirente
3. Boston Common Asset Management, LLC
4. Calvert Investments
5. Clean Yield Group
6. DnB NOR Asset Management
7. Dexia Asset Management
8. Domini Social Investments LLC
9. E. Capital Partners International SA
10. The Ethical Council (AP1, AP2, AP3, and AP4), Sweden
11. The Ethical Funds Company

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<sup>3</sup> CorporateRegister.com. (March 2009). *CRReportingAwards '08, Global Winners & Reporting Trends*. Retrieved Feb. 16, 2010, from <http://www.corporateregister.com/pdf/CRRA08.pdf>.

<sup>4</sup> KPMG. (October 2008). *KPMG International Survey of Corporate Responsibility Reporting 2008*. Retrieved Feb. 16, 2010, from [http://www.kpmg.com/SiteCollectionDocuments/International-corporate-responsibility-survey-2008\\_v2.pdf](http://www.kpmg.com/SiteCollectionDocuments/International-corporate-responsibility-survey-2008_v2.pdf).

12. F&C Management Limited
13. Frater Asset Management (now Element Investment Managers)
14. Government Employees Pension Fund of South Africa
15. Harrington Investments, Inc.
16. Henderson Global Investors, Sustainable and Responsible Investment
17. Inhance Investment Management, Inc.
18. Macif Gestion
19. MMA
20. Mn Services N.V.
21. Neuberger Berman Socially Responsive Fund
22. New York City Pension Funds
23. NorthStar Asset Management
24. Pax World
25. Santa Fé Portfólios
26. SNS Asset Management N.V.
27. Trillium Asset Management Corporation
28. Walden Asset Management, a division of Boston Trust & Investment Management Company
29. Winslow Management Company

**2008 Affiliated Supporters (TO BE UPDATED):**

1. Asset4
2. Association for Sustainable and Responsible Investment in Asia (ASrIA)
3. Brazilian Foundation for Sustainable Development (FBDS)
4. Brazilian Institute of Corporate Governance
5. Centre for Australian Ethical Research (CAER)
6. Centre Info
7. CERES
8. Ethical Investment Research Services Ltd. (EIRIS)
9. European Social Investment Forum (EuroSif)
10. Innovest (now part of RiskMetrics Group)
11. Jantzi Research Inc. (now Jantzi-Sustainalytics)
12. KLD Research & Analytics (now part of RiskMetrics Group)
13. RiskMetrics Group
14. Shareholder Association for Research and Education
15. Sustainable Ventures