Six growing trends in corporate sustainability

An Ernst & Young survey in cooperation with GreenBiz Group

GreenBiz group

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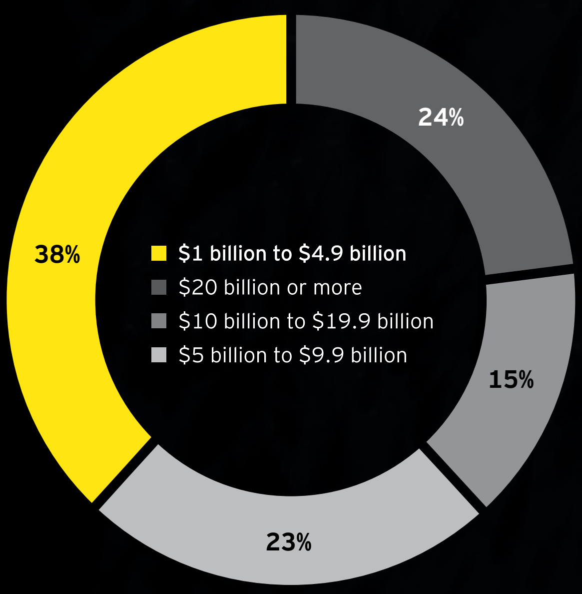
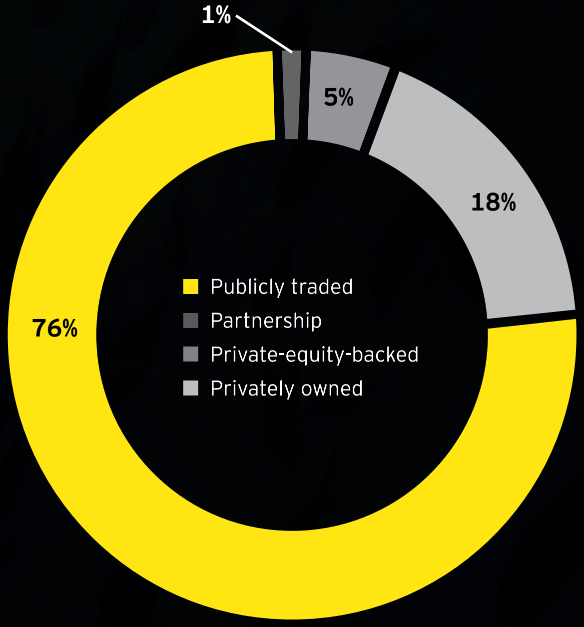
This report summarizes results based primarily on a survey of the GreenBiz Intelligence Panel, consisting of executives and thought leaders in the area of corporate environmental strategy and performance. Panel members participate in brief monthly surveys to provide their expertise and perspective on corporate initiatives, laws and regulations, and scientific advances that are shaping the green agenda.

Data was collected from October 18 to November 10, 2011. The survey was conducted online, and an email link was sent to the panel's 2,966 members inviting them to participate anonymously in the survey. For the purposes of this report, we analyzed the results from 272 respondents from 24 sectors who are employed by companies with annual revenue greater than $1 billion. Approximately 85% of these respondents are based in the United States.

It is important to note that the quantitative data in the report may skew higher than if the panel were representative of a broader demographic — that is, executives and managers not necessarily focused on their company's environmental sustainability efforts. However, the responding companies represent a broad diversity of sustainability experience: those just beginning to engage in sustainability as well as those that have been engaged for years.





Contents


Water
Conservation

Executive summary

Our survey covered a wide range of topics related to corporate sustainability and reporting. From these topics, we distilled six key trends, which are explained in this report. The survey tells us that company and stakeholder interest in corporate sustainability reporting continues to rise, although the tools are still in their infancy. CFOs are emerging as key players in sustainability, and, surprisingly, employees are too: they are second only to customers as drivers of company sustainability initiatives.

Moreover, despite the decreasing likelihood of regulation to address climate change — at least in the United States — greenhouse gas reporting and reduction efforts remain strong, and interest in water usage, efficiency and stewardship is on the rise. Also rising is stakeholder interest in the sustainable sourcing and availability of those raw materials intrinsic to a company's ability to operate. And finally, although often laborious to complete, sustainability-focused surveys and questionnaires from customers, NGOs, investor groups, analysts, media organizations and others continue to grow in importance — particularly those that result in high-profile rankings or ratings, or lead to companies' entry into prestigious stock indices.

These trends suggest that sustainability efforts are now well-integrated into the corporate fabric of a growing number of large and midsized companies. But the effectiveness of such efforts may be limited by internal systems that don't allow companies to effectively measure, track and optimize their sustainability impacts, or to understand and manage the risks of insufficient action. To do so will require new levels of engagement by the C-suite, and more sophisticated methods of sustainability reporting and assurance.

Six growing trends

1. **Sustainability reporting is growing, but the tools are still developing**
2. **The CFO's role in sustainability is on the rise**
3. **Employees emerge as a key stakeholder group for sustainability programs and reporting**
4. **Despite regulatory uncertainty, greenhouse gas reporting remains strong, along with growing interest in water**
5. **Awareness is on the rise regarding the scarcity of business resources**
6. **Rankings and ratings matter to company executives**

The institutionalization of corporate sustainability

This report examines six corporate sustainability trends, based on a survey conducted in late 2011 by GreenBiz Group and Ernst & Young of members of the GreenBiz Intelligence Panel, consisting of executives and thought leaders in the area of corporate environmental strategy and performance. For this report, we analyzed the results from 272 respondents in 24 industry sectors who are employed by companies generating revenue greater than $1 billion. Approximately 85% of these respondents are based in the United States.

The goal of the survey and this report is to shed a light on the profound shifts taking place in corporate sustainability as efforts move from purely voluntary to programs that, while not mandated by laws or regulations, have become de facto requirements due to the expectations of customers, employees, shareholders and other stakeholders. These expectations are especially raising the bar for the quality of reporting — and raising the risks for companies whose disclosure and transparency do not hold up to scrutiny.

Over the past two decades, corporate sustainability efforts have shifted from a risk-based compliance focus where rudimentary, voluntary, sometimes haphazard initiatives have evolved into a complex and disciplined business-imperative focused on customer and stakeholder requirement. Along the way, companies' approaches to sustainability, as well as their external communications on these topics, have matured to the point of being common among large companies, as well as many smaller ones.

Growing motivations

The motivations behind these initiatives have grown, too. Where corporate sustainability once focused on compliance or reputational issues, or on "doing well by doing good," it now has become strategic inside many companies — it's as core to company operations as safety, quality, employee retention and customer satisfaction. But because sustainability affects the world outside the company walls on a larger scale, companies face even greater public pressures for transparency and accountability about their sustainability impacts and initiatives, in addition to the many other topics about which companies are scrutinized these days.

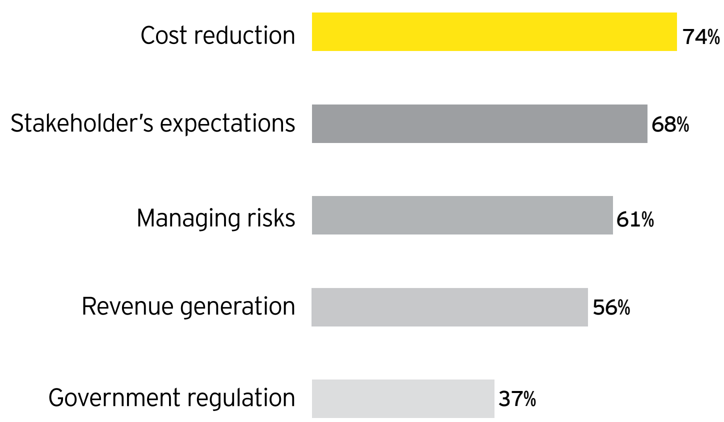
No letup during recession

The importance of sustainability efforts inside companies is underscored by their persistence during the current recession and recovery. Leading companies have continued to take action to address sustainability issues during the economic downturn, a time when there were few new regulatory initiatives spurring them on. Some large companies have dramatically increased their sustainability commitments over the past two years, with bold initiatives and goals. Other companies continue to leverage their sustainability programs in quieter ways as a means of improving business performance, fostering innovation and providing other forms of business value.

Cutting costs as a driver

As would be expected during tough economic times, cost reduction was cited by 74% of the respondents to our survey as the principal driver of their company's sustainability agenda, followed by stakeholder expectations (68%), managing risk (61%) and generating revenue (56%). Government regulation ranked last, cited by only 37%. That last statistic tells a larger story about how the growth of corporate sustainability initiatives has moved beyond compliance and into viewing sustainability more strategically. When we asked which factors would likely drive a respondent's company's sustainability initiatives, energy costs topped the list, cited by 93% of respondents. In another sign that energy has become a strategic concern, the 2011 GreenBiz Salary Survey found 48% of responding companies saying that their company now has a full-time dedicated corporate energy manager focused on reducing energy consumption. As recently as five years ago, this position barely existed.

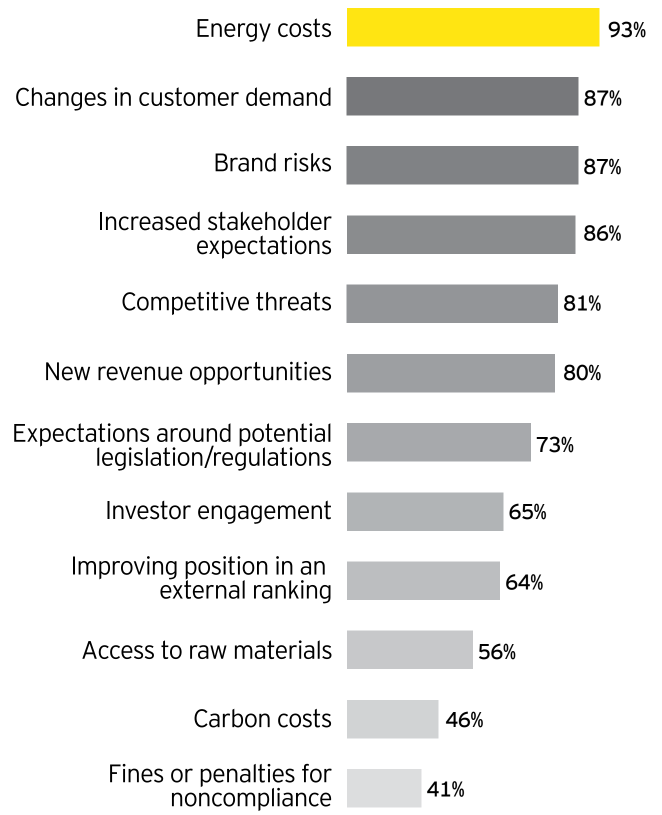
In the next two years, which of the following drivers will be the most important in driving your sustainability agenda? Check all that apply.



A platform for creating value

In addition to managing costs, companies are beginning to look at sustainability strategically as a revenue driver. Beyond cutting energy costs, a majority of the top-ranked factors for driving sustainability initiatives were related to retaining or increasing revenue. Eighty-seven percent of respondents cited changes in consumer demand and brand risks. Competitive threats (81%) and new revenue opportunities (80%) also garnered high response rates. Increased stakeholder expectations (86%) were the only non-financial driver in the top six. It is worth noting that regulatory penalties or fines ranked last as a driver of corporate action.

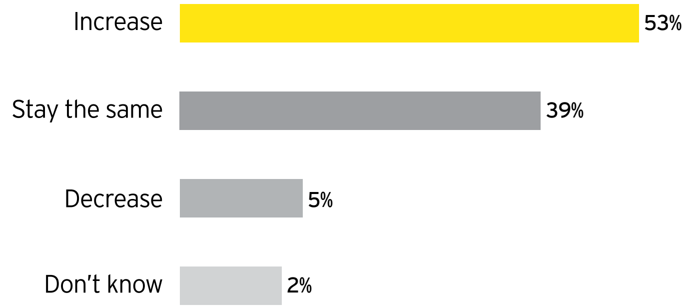
In the next 12 months, how important will the following factors be in driving your sustainability initiatives?



Growing investments in sustainability in spite of the economy

Companies expect to continue investing in their sustainability initiatives. Fifty-three percent of respondents plan for their budgets for sustainability to increase in the next three years. Thirty-nine percent think it will stay the same, and only 5% anticipate funding of their sustainability initiatives to decrease.

Do you expect your funding for sustainability to increase or decrease in the next 3 years?



Calls for accountability

As company efforts increase, so does the need for accountability — both internally, in risk management, investment decisions and operational efficiency, and externally, responding to growing questions from customers and stakeholders about companies' sustainability goals, commitments and performance.

In that context, the role of sustainability reporting is taking on more strategic importance, requiring companies to take a more rigorous approach to the gathering and dissemination of information — not just data, but also the stories companies want to tell.

Trend

1

Sustainability reporting is growing, but the tools are still developing

As sustainability continues to rise in importance inside companies around the world, demands for accountability are growing louder. They come from a diverse array of players, varying by sector and geography, but generally include customers, employees, investors and shareholders, policymakers, activists, analysts and suppliers. Each group has its own set of interests regarding the topics that concern them and the level of depth and detail they want to know about company activities and impacts.

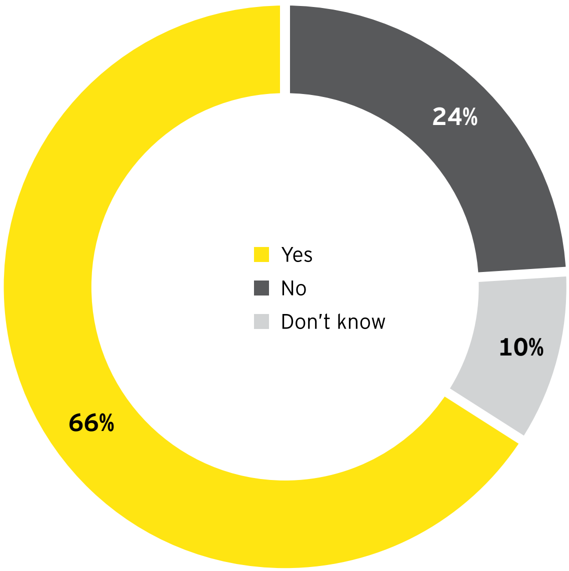
Respondents to our survey cited continued strong interest in sustainability from key constituencies. For example, 66% reported an increase of inquiries over the past 12 months from shareholders and investors about sustainability-related issues. The lion's share of their inquiries, 70%, focused on energy and climate issues — company efforts to increase energy-efficiency measures and renewable energy usage, and either reduce greenhouse gas emissions or adopt quantitative goals to do so. Just over half of those citing an increase in sustainability-related inquiries said that investors or shareholders wanted to know about the company's publication of a sustainability report.

To meet these growing demands for disclosure and transparency, companies are publishing reports, mostly annually but sometimes more or less frequently (11% of respondents indicated they report more than once a year). They go by a variety of names: corporate environmental reports, corporate responsibility reports, social responsibility reports, corporate citizenship reports and more. For purposes of this paper, we refer to them collectively as sustainability reports.

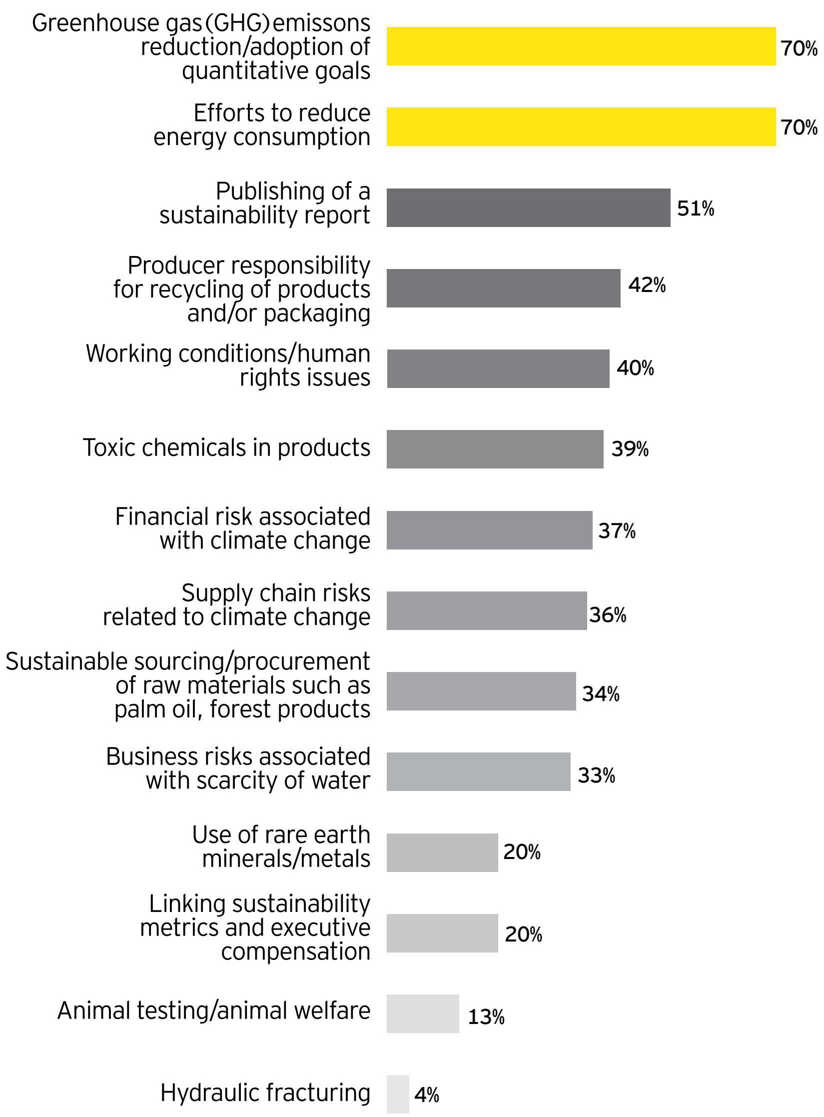
By whatever name, they are growing in number. The UK-based website CorporateRegister.com, which aggregates and tracks "corporate responsibility" reports worldwide, counted 26 such reports in 1992, the first year it began tracking. In 2010, its most current year, it counted 5,593 reports worldwide.

The growth is not just in the quantity of reports, but also their quality: the number of measures reported, the consistency of the data, the verification of data by independent third parties and other factors. The growth also reflects companies' overall self-awareness based on new and better standards and metrics. Where reports once focused primarily on operations, they now also look at products from a life-cycle perspective, from raw materials and resources to the final disposition of goods at the end of their useful lives.

Has your company seen an increase in inquiries from investors/shareholders about sustainability-related issues in the past 12 months?



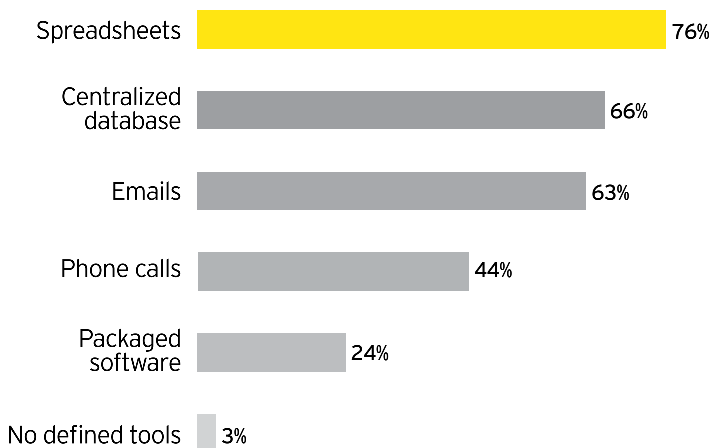
If yes, which topics are you being asked about? Check all that apply.



But the growth of reporting is limited, if not undermined, by the tools companies are using to produce them. Based on our survey responses, those tools remain rudimentary, even primitive, compared with those used for reporting on financial measures. When asked to name the tools used to compile their sustainability reports, companies cited spreadsheets, centralized databases, emails and phone calls as the principal tools, with about one in four (24%) using packaged software. Respondents also reported being challenged to find the right data, assess its credibility and determine which data were material for reporting purposes — all suggesting that the state-of-the-art of reporting systems remains nascent.

Despite the challenges, there is a consensus on the framework by which the respondents report. Three-fourths of the respondents indicated they followed the Global Reporting Initiative (GRI) reporting framework. Of those, 62% indicated they were at a B or better application level.

How do you compile the data for your reports? Check all that apply.



The role of verification and assurance

As sustainability reporting has matured from a voluntary to a strategic initiative, so has the need for third-party assurance of reported data. While this is not required in the way that it is for financial reporting, a growing number of reporting companies are engaging independent auditors for assurance and verification of sustainability data.

In the 2011 report, *How sustainability has expanded the CFO's role*, Ernst & Young noted that "the same standards of third-party assurance that have long been used to validate financial information are increasingly being applied to sustainability reporting as well. Many ratings agencies consider the presence of third-party assurance in their scoring systems."

Twenty-five percent of the respondents to our survey currently have their sustainability report assured, in part or in whole, by a third party, while another 42% plan to do so within five years. Overwhelmingly, the top reason for assurance is to "add credibility to information presented to external stakeholders" (47%). Nearly half of those using third-party assurers engage accounting firms (48%), while 22% engage sustainability consulting firms and 15% engage certification firms. NGOs and engineering firms are each engaged by 4% of respondents.

Trend 2

The CFO's role in sustainability is on the rise

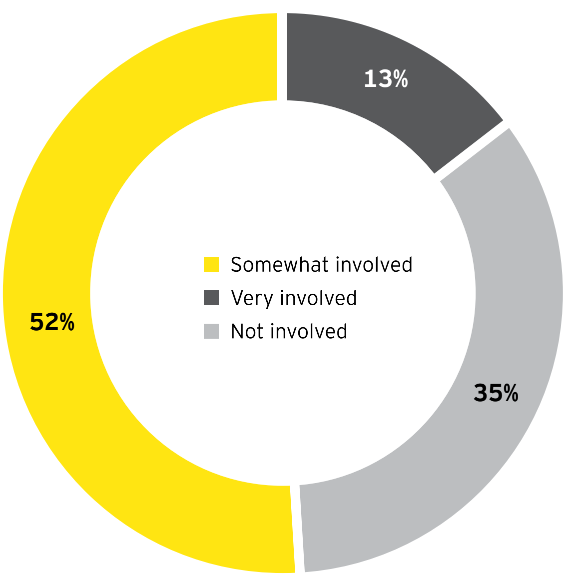
Reporting and the role of the CFO as a key player in sustainability are simultaneously on the rise. Historically, CFOs were not deeply or directly engaged in sustainability efforts, viewing them as too soft or not in their purview of the CFO, as transparency, disclosure, compensation, and risk are. But that is changing. Ernst & Young's 2011 report, *How sustainability has expanded the CFO's role*, noted the change. The report focused on three key areas where CFOs are playing an increasing role: investor relations, external reporting and assurance and operational controllership and financial risk management.

According to Ernst & Young, "CFOs are getting involved in the management, measurement and reporting of the companies' sustainability activities. This involvement has expanded the CFO's role in ways that would have been hard to imagine even a few years ago."

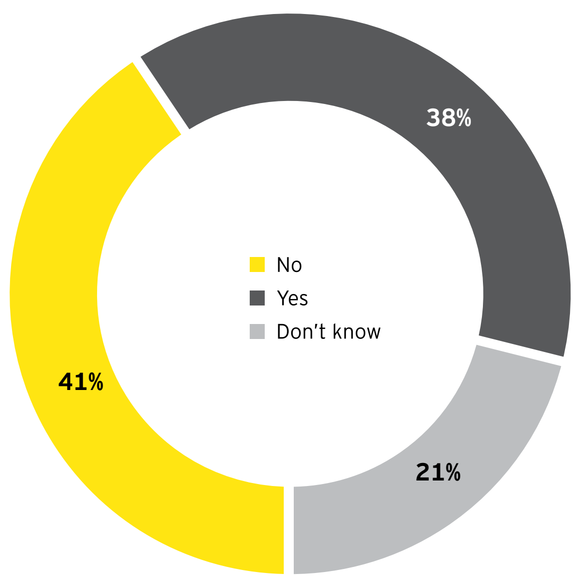
In our survey, one in six (13%) respondents said their CFO was "very involved" with sustainability, while 52% said the CFO was "somewhat" involved. That 65% are now engaged in sustainability is a sea change, though not surprising. Respondents cited cost reductions (74%) and managing risks (61%) as two of the three key drivers of their company's sustainability agenda — both of which are of keen interest to CFOs. (The third top driver for CFO engagement was monitoring shareholder resolutions.)

One key reason for growing CFO involvement is the growing scrutiny of company sustainability issues by equity analysts. This is a relatively new trend, facilitated in part by the growing presence of sustainability data readily available on analysts' computer terminals from the traditional financial reporting services. Already, 38% of respondents believe equity analysts

How involved is the CFO with your sustainability initiatives?



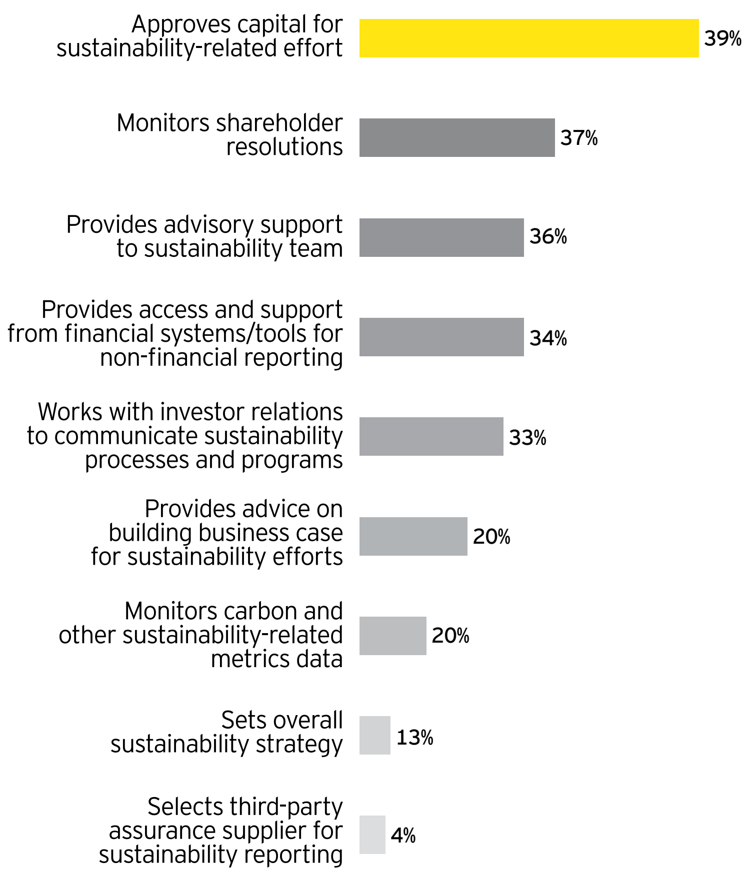
Do you believe the equity analysts who cover your company consider sustainability performance in your company's evaluation?



who cover their company consider sustainability performance in their evaluations, and 23% believe this will happen within five years.

Another emerging trend in business will further engage CFOs in sustainability: the growth of integrated corporate reports, in which sustainability data is reported alongside traditional financial reporting data. Already, a handful of companies have created integrated reports, and a Europe-based group, the International Integrated Reporting Committee (IIRC) — whose members include world leaders from the corporate, investment, accounting, securities, regulatory, academic and standard-setting sectors as well as civil society — is actively promoting the idea. It is supported by the Prince of Wales' Accounting for Sustainability Project, the Global Reporting Initiative, the American Institute of Certified Public Accountants and other groups.

How would you characterize your CFO's involvement with your sustainability efforts? Check all that apply.



Linking sustainability and tax strategies

Ernst & Young recently conducted a survey of corporate tax professionals to gauge the level of involvement of business tax departments with their companies' broader corporate environmental and sustainability initiatives. The survey results showed that there is room for improvement. Only 16% of companies that either have or are developing an environmental sustainability strategy said their tax departments are actively involved. Furthermore, 30% of respondents did not know whether their companies had a sustainability leader. In our experience, organizations that take a holistic approach to sustainability, with management buy-in and communication among all relevant departments, are best able to identify tax incentives and other opportunities that can reduce the costs and improve the return on investment (ROI) of their sustainability programs.

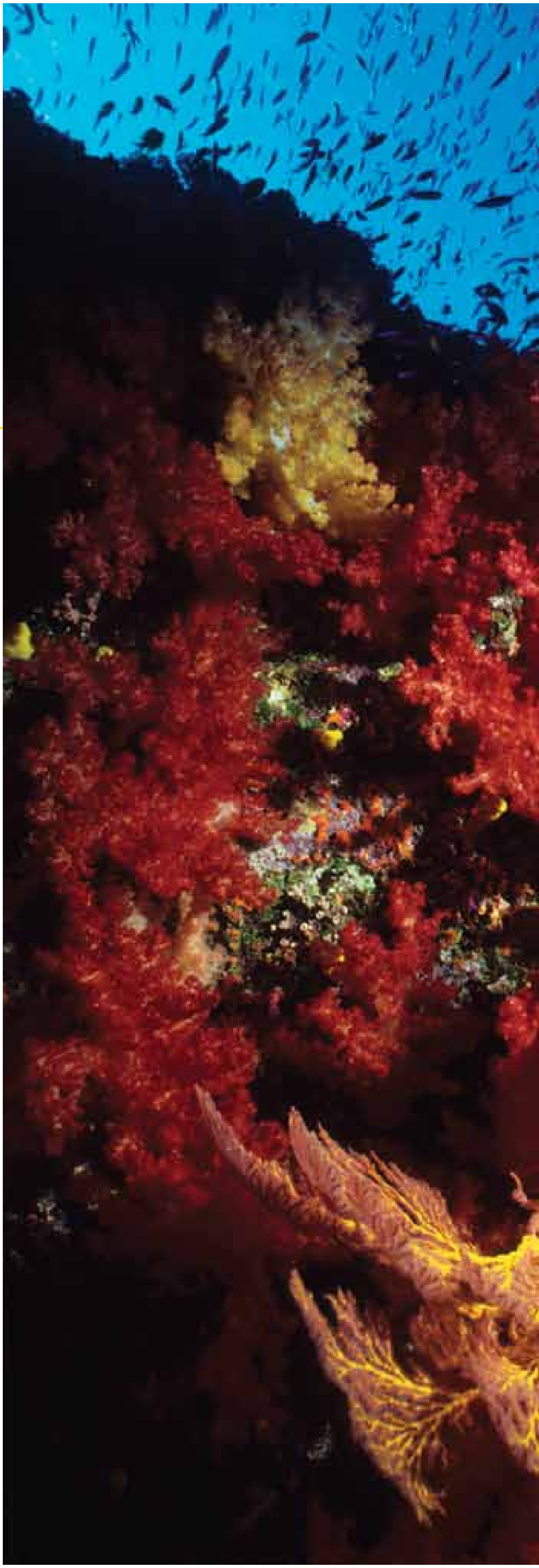
The results also reflect many missed opportunities to reduce the cost of environmental sustainability initiatives through the use of tax incentives. While 17% of respondents said their companies were aware of and use available incentives related to environmental sustainability initiatives, 37% were unaware of any such incentives.

Ernst & Young has found that a company can effectively communicate sustainability initiatives and identify incentive opportunities throughout the organization by framing the discussion in broad categories:

- **Reduce** consumption of natural resources and carbon emissions.
- **Switch** to alternative energy and fuel sources.
- **Innovate** and develop new clean technology and less carbon-intensive or lower-emitting products and services to meet the demands of the transforming economy.
- **Offset** carbon emissions.

Through effective internal communication of a company's activities around the Reduce, Switch, Innovate, Offset (RSIO) framework, companies will be able to identify more incentives and tax credit opportunities related to their sustainability initiatives, thereby improving their ROI and allowing for additional green investments.

For more information, look for *Working together: linking sustainability and tax to reduce the cost of implementing sustainability initiatives* on ey.com/climatechange



Should ROI differ for sustainability investments?

Over the past two decades, a debate has been waged over whether investments in environmental and other sustainability projects should have a "social discount." But does this debate still matter? In many cases — energy-efficiency upgrades, for example — the paybacks are sufficiently attractive that they meet required rates of return. Other types of investments — green building upgrades that help a building qualify for LEED certification, for example — may be seen as having sufficient intangible benefits (such as company goodwill or employee retention) that meeting hurdle rates becomes less of an imperative.

Two-thirds (67%) of respondents said that sustainability projects must meet the same payback requirements as other projects, while 20% said that payback can be longer for sustainability projects. Another 13% said that sustainability projects must have shorter paybacks. According to a recent study that Ernst & Young conducted in which the same question was asked to Chief Sustainability Officers, the results were similar where 62% said that the payback period was the same. However, when the same question was asked to Tax professionals, only 44% responded that the payback period was the same.

Increasingly, companies are recognizing that sustainability initiatives can deliver handsome financial as well as nonfinancial returns. As one respondent noted, "We see returns in being a 'better-run' company. By evaluating our internal operations, we can reduce some costs, but mostly we can garner credibility from our customers. Additionally, by focusing on our customers' sustainability needs, we see clear opportunities for new revenue."

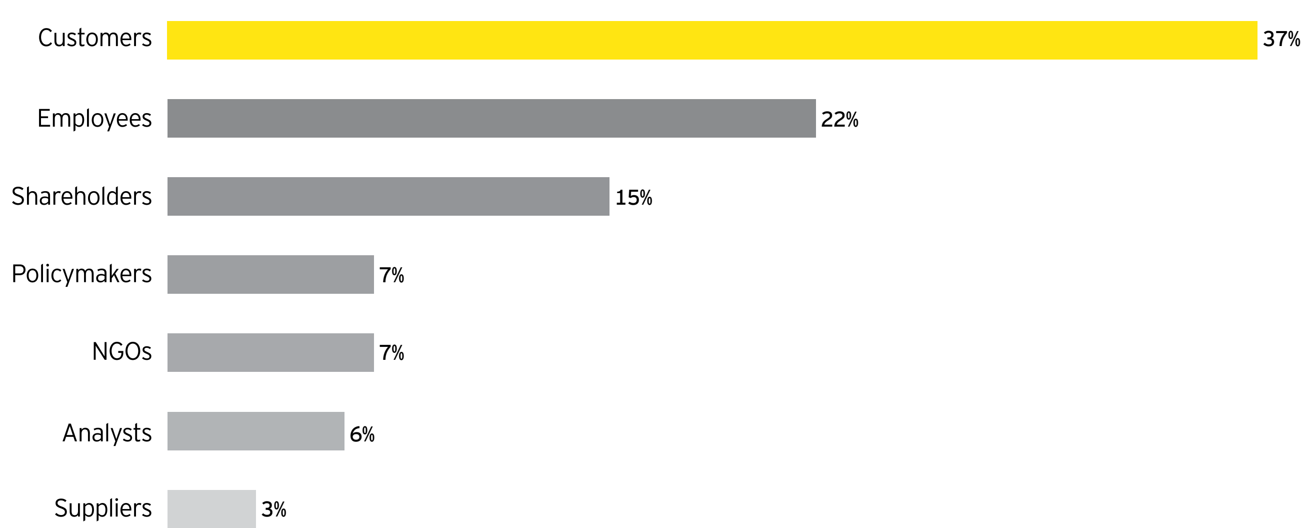
Trend 3

Employees emerge as a key stakeholder group for sustainability programs and reporting

Conventional wisdom is that company sustainability initiatives are driven principally by customers or investors and shareholders, and sometimes by NGO activist groups or regulatory agencies. But our survey found that employees are a key driver in a significant number of companies. When asked to rank the top three stakeholder groups in driving their company's sustainability initiatives, employees ranked second (cited by 22% of respondents), behind customers (37%) and ahead of shareholders (15%), policymakers (7%) and NGOs (7%). It's no coincidence that employees have emerged as a key audience for sustainability reports, the second most important audience behind customers.

Employees can be cheerleaders of their company's sustainability efforts, even when they are cynical of the overall commitment of businesses to reduce their impacts. GreenBiz Group's Green Confidence Index found in 2009 and 2010 that Americans were more than twice as likely to say that the company they worked for was "doing enough" to address environmental issues compared to other companies. Employees, it seems, are inclined to think of their employers as "good guys" and are more willing than with other companies to give them credit for positive environmental actions.

Rank the top three stakeholder groups in order of importance in driving your sustainability initiatives. (weighted average)

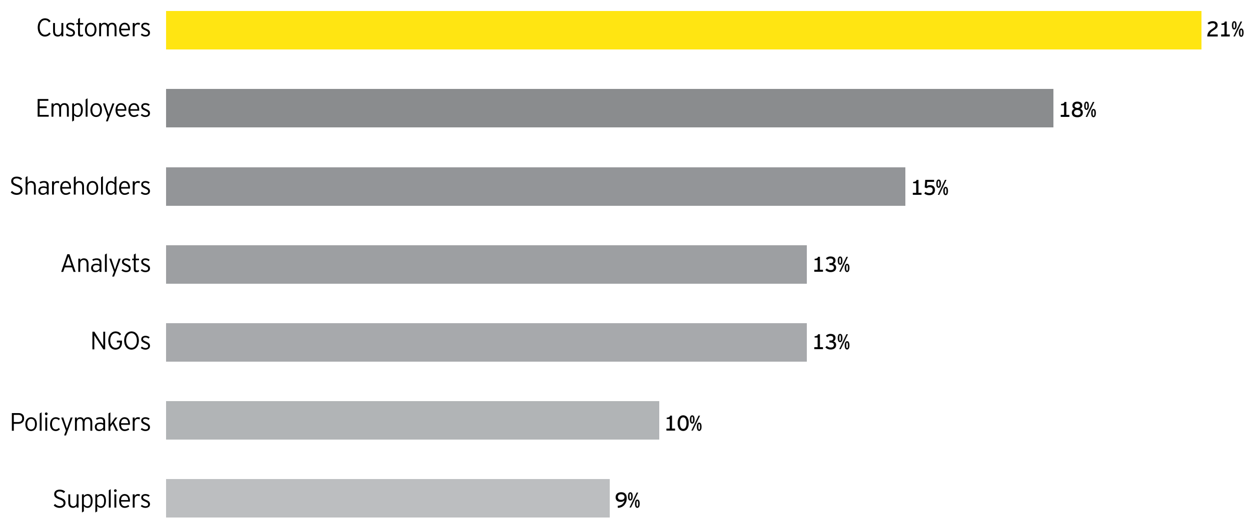


The practice of employee education and engagement on sustainability has spread rapidly and evolved into a more institutionalized element of companies' broad sustainability strategies. Although employee engagement isn't generally the initial driver of most strategies, once they're involved, engagement can get much higher and become embraced as an integral part of the company's values. Companies use a wide range of tools to engage employees on sustainability, including "treasure hunts" to identify untapped opportunities to reduce waste and energy use; encouraging employees to create personal sustainability plans, or other efforts to incent employees to incorporate sustainability into their everyday lives; Earth Day fairs, in which outside organizations set up booths to engage and educate employees; and employee award and recognition programs that provide everything from commendations to cash for employees or teams that, say, make measurable environmental improvements or demonstrate best-in-class practices.

While the tools and techniques for employee engagement vary widely, the benefits are consistently described by these companies. Most importantly, they enhance employee attraction and retention, improve operational efficiencies, strengthen customer relations, increase innovation and strengthen community ties.

Moreover, companies that distribute their sustainability reports broadly among employees find that they often share this information with their families, friends and neighbors, as well as with customers and suppliers. Employees can become a powerful voice in support of company sustainability messages.

Who do you perceive as the most important audiences for your sustainability report? (weighted average)



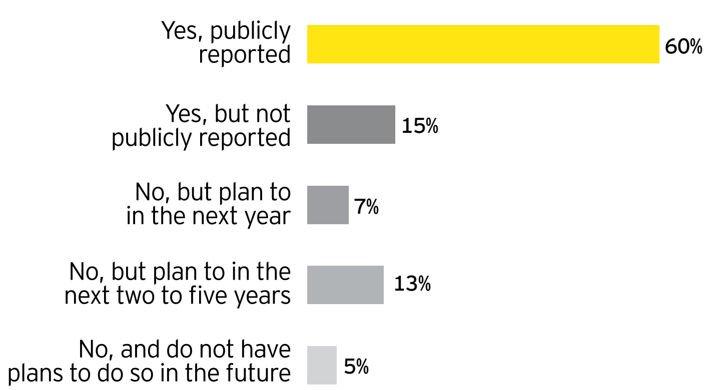
Trend 4

Despite regulatory uncertainty, greenhouse gas reporting remains strong, and there is growing interest in water

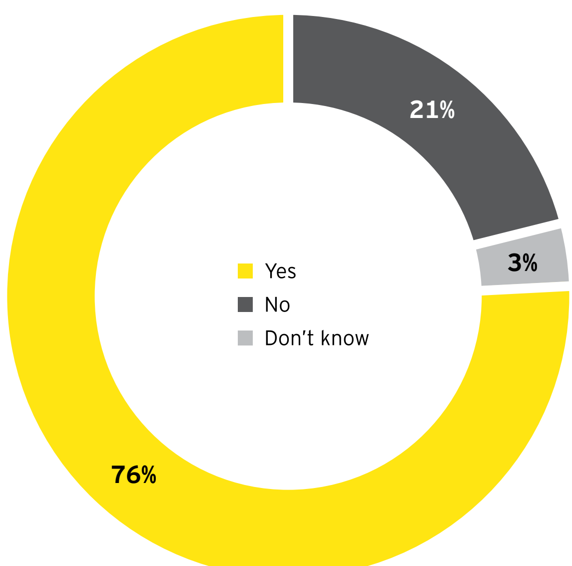
Climate change has become a strategic concern at many companies, despite a lack of US regulatory requirements to measure, manage or report emissions. Three-fourths of respondents have set greenhouse gas reduction goals; 60% report these publicly. Seventy-six percent publicly report their greenhouse gas emissions; another 16% said they plan to do so within five years.

Company interest in the greenhouse gas emissions of their operations and supply chains are driven less by regulatory concern than by three other factors: reputation management, customer expectations and efficiency goals. Reputation issues arise when independent organizations rate or rank companies on climate emissions and goals, either separately or as part of a larger corporate rating or ranking scheme. Since the largest part of some companies' carbon "footprint" can be found in their supply chains, many are pressing suppliers and trading partners to report and reduce their emissions. And many companies recognize that greenhouse gas emissions are a form of waste — a byproduct that has no value to the company or its customers, a proxy for inefficiency. In that light, reducing greenhouse gas emissions is an efficiency measure. Moreover, emissions are increasingly seen as a risk factor — a liability to a company and its shareholders should public and political climate concerns rekindle.

Do you have a GHG emission reduction goal?



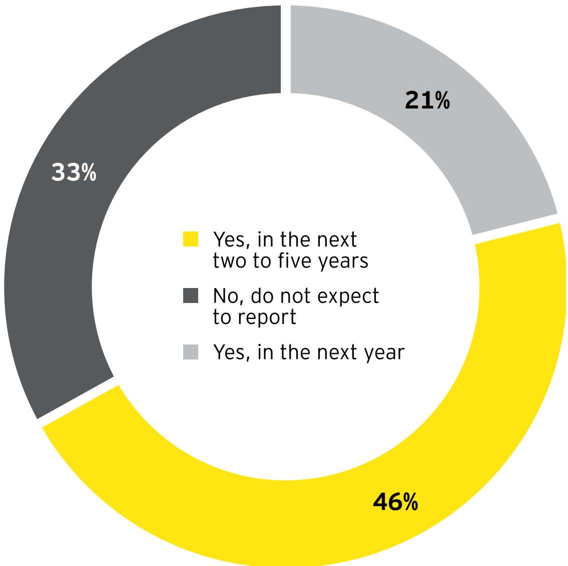
Do you publically report GHG emissions?



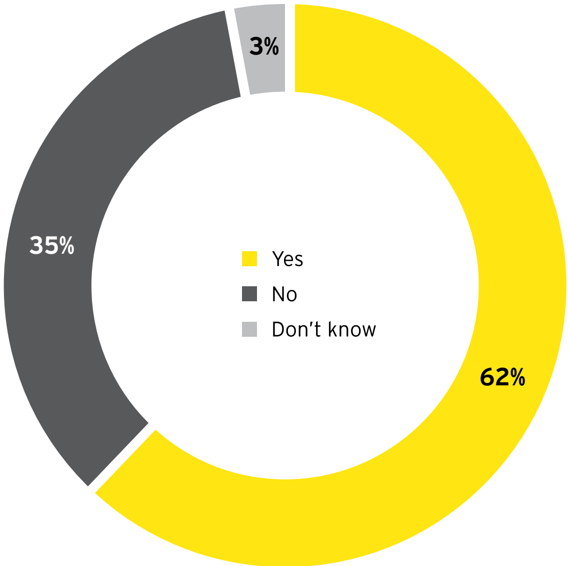
The nonprofit Carbon Disclosure Project (CDP) reports annually on the climate change performance of companies on the Global 500 Index based on a yearly questionnaire. Each year, a larger portion of companies respond, and the latest results show significant progress in a few key areas. In 2011, 81% of Global 500 companies responded to CDP. Of those, 93% said their board or a senior executive oversees the company's climate change program, compared to 85% in 2010. And in 2011, for the first time in the history of the questionnaire, a majority of the Global 500 (68%) have integrated climate change action into their overall business strategy, compared to just 48% in 2010.

Interest in reporting on water is also on the rise, especially in water-intensive industries such as metals and mining, oil and gas, chemicals, agriculture, power and utilities, and food and beverage. Sixty-two percent of respondents publicly report their water usage. About one in six of those have their "water footprint" verified by an independent third party; 22% said they plan to do so within five years.

Do you expect to publicly report GHG emissions in the future?

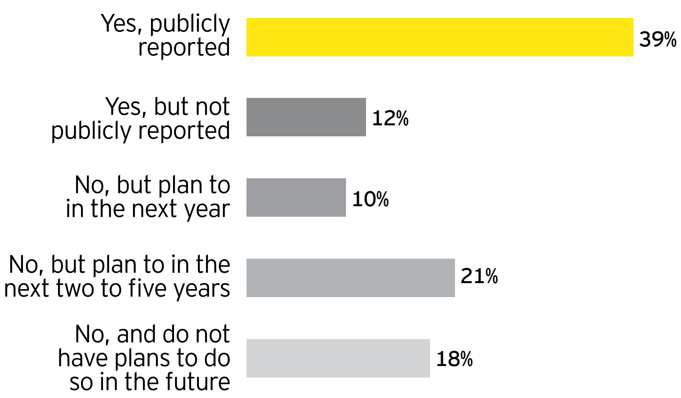


Do you publicly report your water usage?



Awareness of water reporting increased in 2010 with the introduction of a water disclosure initiative by CDP, similar to its carbon initiative. In its 2011 Water Disclosure Global Report, CDP found that more companies view water issues as a business opportunity (63%) than a risk (59%). The opportunities range from the savings realized by using less water to potential new products and services. Nearly 80% see those opportunities affecting business in the next five years.

Do you have water footprint reduction goals?



Scope 3 and the growth of supply-chain reporting

For years, companies have been pushing sustainability requirements further up their supply chains. Initially, the requirements were most acute for consumer-branded companies that wanted to ensure that their products and brands could not be connected to such things as child labor, sweatshops, deforestation or toxic waste dumps.

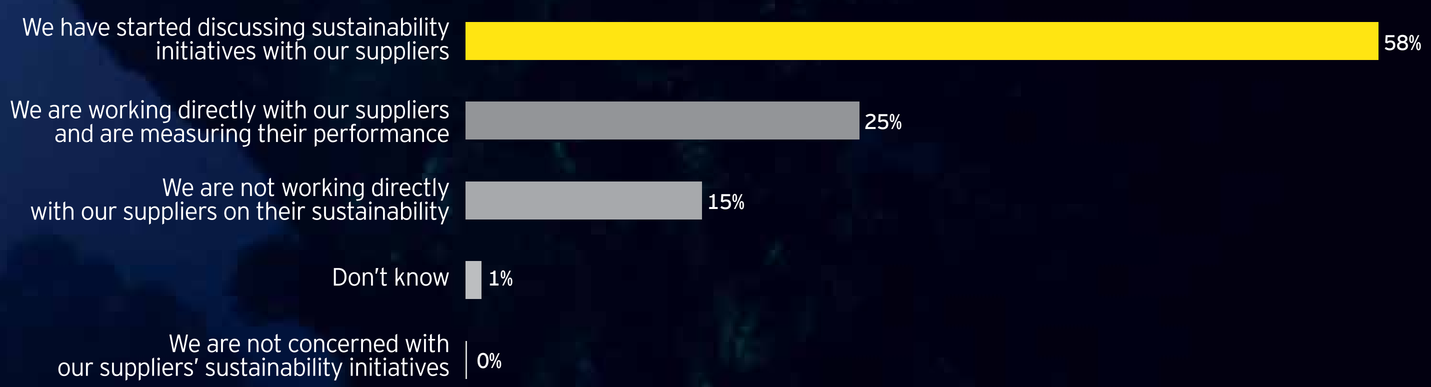
Today, companies are pushing suppliers on a wider range of issues, many of which aren't necessarily directly related to the products and services they sell. Walmart and other retailers, for example, have pushed consumer goods manufacturers to provide detailed information, not just about their products but also their overall operations, commitments and performance. Many of their suppliers, in turn, have turned to their own suppliers with similarly detailed information requests.

In our survey, 83% of respondents say they are either already working directly with their suppliers or are discussing with them how to measure their sustainability impacts. Only 15% said they are not working directly with suppliers on sustainability.

Among those just leaving the starting gate is the General Services Administration (GSA), the US Government's procurement agency. In 2009, Executive Order 13514 called for federal agencies to set and meet specific sustainability-related targets throughout their operations. As part of this undertaking, GSA is leveraging its purchasing power to promote sustainable procurement. In 2010, it issued a report stating that sustainability considerations, especially GHG emissions data, should be used in the procurement process through a phased incentive approach. The scale and breadth of the Government's purchasing power will have a significant impact on corporations in the federal supply chain.

Supply-chain reporting requirements will be further influenced by the Value Chain Standard Accounting and Reporting Standard of the Greenhouse Gas Protocol, more commonly referred to as Scope 3, issued in fall 2011. Pankaj Bhatia, director of the GHG Protocol initiative at WRI, described the Scope 3 standard as a comprehensive accounting and reporting structure that "will provide a sophisticated framework for reporting to the Carbon Disclosure Project and the Securities and Exchange Commission, in annual corporate social responsibility reports and for other GHG transparency programs."

Which of the following statements best describes how your organization is working with its supply chain on sustainability initiatives?



Trend

5

Awareness is on the rise regarding the scarcity of business resources

According to a recent Organisation for Economic Co-operation and Development study, between now and 2030, the number of people in the global middle class will grow from 1.8 billion to 4.9 billion. A recent Ernst & Young report notes that between 2009 and 2030, demand from the global middle class could grow from $21 trillion to $56 trillion. As markets grow, the strain on natural resources can lead to critical shortages and significant business risks. Some resource constraints are already happening, whether due to limited supplies, geopolitics, price rises or sustainability concerns. And 76% of survey respondents said that they anticipate their company's core business objectives to be affected by natural resource shortages in the next three to five years.

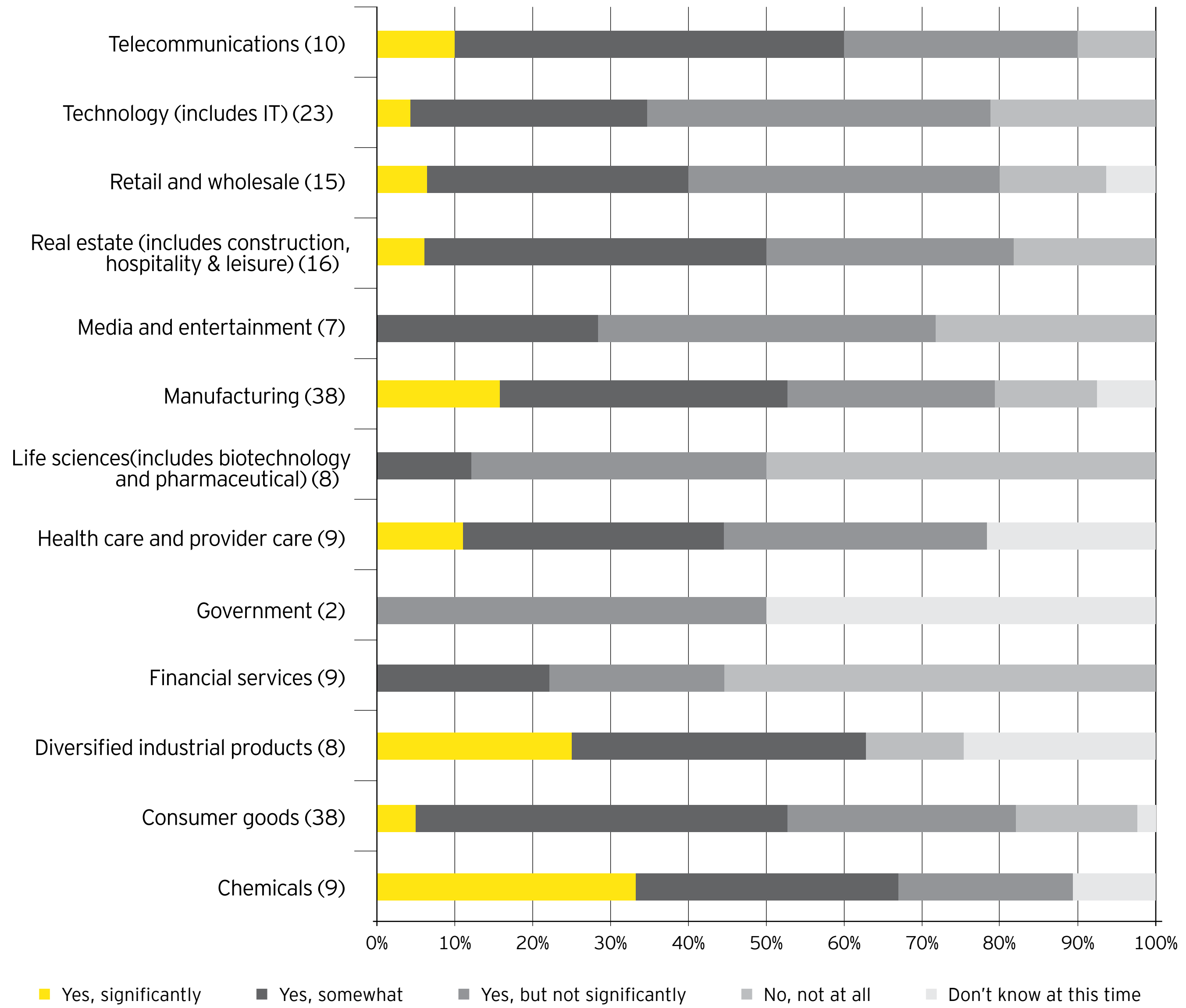
Resource availability is rapidly becoming a de facto reporting requirement for some companies. A significant number of survey respondents said they are being asked by key constituencies about sustainable sourcing and procurement of raw materials, such or forest products (34% of respondents), business risks associated with scarcity of water (33%) and the use of rare earth minerals and metals (20%).

Another concern is "conflict minerals" — those mined in conditions of armed conflict and human rights abuses. Still another concern is palm oil which has affected food processors. The oil — common in the commercial food industry due to its lower cost and the high stability of the refined product when used for frying — is seen as a cause of substantial and often irreversible environmental damage, including deforestation, habitat loss of critically endangered species and climate change. Faced with activist and customer scrutiny, large companies have had to better define and certify palm oil harvested sustainably.

And then there are "rare earths," a collection of 17 chemical elements in the periodic table that are used extensively in technologies such as wind turbine generators, electric vehicle motors, batteries, fuel cells and energy-efficient lighting. Nearly all (97%) of these materials come from China — creating challenges economically (due to limited supply and global demand), environmentally (mining, refining and recycling of rare earths can have major environmental consequences) and to national security (as these materials are critical to infrastructure and transportation, and China in 2010 began restricting exports of these materials). Companies relying on rare earths have found themselves seeking means to mitigate these risks.

Such transparency and disclosure requirements offer a peek into a growing future, where the availability and access to strategic resources and materials become a concern to investors and others. Whether driven by regulatory mandates or customer or activist concerns, the rise of such issues in reporting underscores that these materials are intrinsic to a company's ability to operate.

Do you anticipate your company's core business objectives to be affected by natural resource shortages (e.g., water, energy, forest products, rare earth minerals and metals) in the next three to five years?



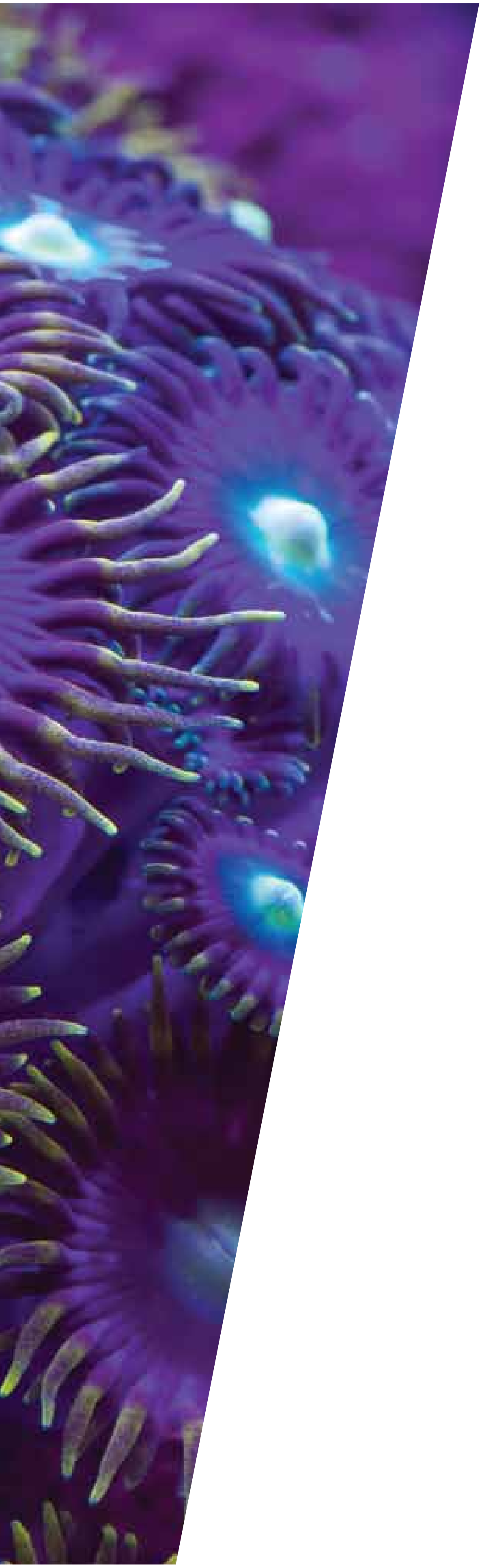
Corporations linked to historically unsustainable practices are especially vulnerable in three distinct areas:

1. Resources that are dependent on increasingly degraded ecosystem services (i.e., where the resource in question cannot be farmed or synthetically manufactured) such as fresh water and tuna

2. Resources that, through associated agricultural practices, are directly contributing to the degradation of ecosystems and species extinction, such as palm oil or tropical hardwoods, and as a consequence are becoming increasingly hazardous from a reputation and brand loyalty perspective

3. Value-added products where the profit obtained in western markets is achieved through levels of production mechanization that raise significant ethical concerns, such as in the case of smartphones and tablet devices or factory-farmed meats

Adding to the risk associated with these areas is the extent to which social media can attract the attention of millions of consumers. Such attention has led to some highly successful campaigns seeking to boycott companies to affect their production methods.



Preparing for water scarcity

Raising business awareness on water issues

Asking the right questions

- Does the company's long-term strategy take into consideration that water is emerging as one of the critical components of sustainable and reliable operations?
- Are water issues included in my risk assessment and mitigation plans? Do I understand the potential increase in shareholder and stakeholder concerns about the impact of water on the company's operations, corporate responsibility and sustainable strategy?
- Where are my operations/value chain most at risk?
- Is reliable access to water a key consideration for any decisions regarding new facility expansion? Am I integrating water scarcity 2030 projections at my new plants?
- Do I use best-in-class practices and technologies in water management around my global operations? Are the company's production processes, or those of key suppliers, vulnerable to water shortages?
- What are the water footprints of my organization and products? Should we disclose an individual product's lifecycle water footprint on product packaging?
- Do my operations fully comply with local permits?
- Have I identified water-related tax incentive opportunities?

For more information, look for *Preparing for water scarcity: raising business awareness on water issues* on ey.com/climatechange

Trend 6

Rankings and ratings matter to company executives

Companies today face a barrage of labor-intensive sustainability-focused surveys and questionnaires from customers, NGOs, investor groups, analysts, media organizations and others — as many as 300 a year, according to a 2010 survey by GreenBiz Group. Some of these questionnaires result in rankings or ratings, or lead to companies' entry into prestigious stock indices.

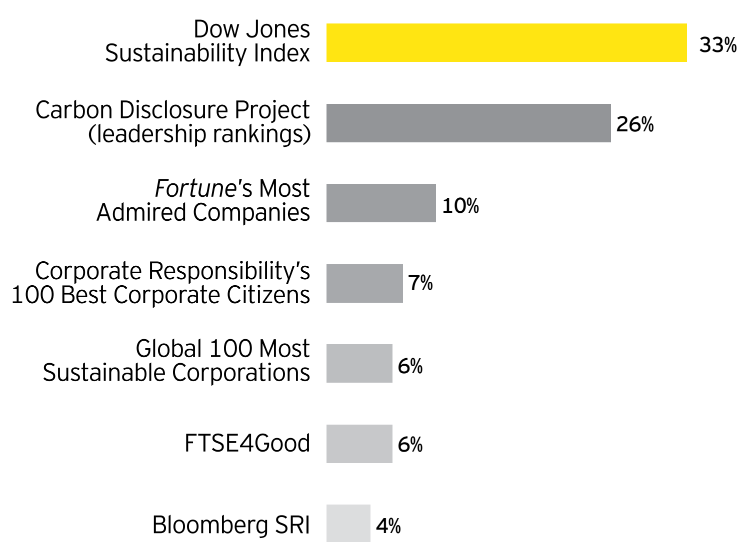
Some companies privately complain about the time and expense of fulfilling these requests, considering the difficulties they face in pulling together diverse information from all over the company, and the data requested may vary from one questionnaire to another. However, the value is clear: 55% of respondents say that actively responding to sustainability ratings questionnaires is a primary means of communicating with investors about their sustainability performance and initiatives.

"Customer surveys are the most important, but it would be of great value if industries, or consortia, or other groups would collaborate to create a shared survey," wrote one respondent. "The range of questions (from 'What is the weight of chemical X in your product?' to 'What have you learned from your sustainability program and what would you do differently?') is mind-boggling, and because they always require input from subject-matter experts throughout the company, they can be very time-consuming to complete."

Ratings and rankings serve a purpose for sustainability professionals inside companies, too: they can help bring C-suite attention to key sustainability issues. As one survey respondent to GreenBiz's Salary Survey put it, "It's easier to go to other executives and say 'This is what customers are asking about' than it is to ask about it myself."

Several ratings and rankings are particularly well-regarded by respondents — notably, the Dow Jones Sustainability Index, the Carbon Disclosure Project's leadership rankings (which gives a performance score to all companies with a sufficient level of disclosure and performance in their response to CDP's questionnaire), *Fortune* magazine's "Most Admired Companies" list, and the 100 Best Corporate Citizens, named by *Corporate Responsibility* magazine. Not included in our survey, but frequently named as a write-in by respondents, was *Newsweek* magazine's Green Rankings, the only one in our survey from a mainstream media organization.

Which sustainability rankings do you consider most important to your company? Check the top three (1 being the most important). (weighted average)



It's worth noting that several of these ratings and rankings don't require company participation, instead relying on information provided by investment research firms, NGOs, media clips or companies' own sustainability reports. Of these, some of the rating and rankings organizations offer companies the opportunity, but not the requirement, to review and amend materials or rankings before (or after) publication, although there is no correlation between a company's participation and its ranking or rating. In other words, companies can score well without active participation or score low despite their best efforts to review and amend data. That places the burden on companies to ensure that the information about them is accurate, balanced and up to date. It's also an important reason why companies should seek to tell their story before others do.

The burden of such schemes may pale when compared to the deluge of questionnaires issued by companies themselves to their suppliers seeking a wide range of information. Because companies have different interests or requirements of their suppliers, there is no standard format for these questions. Several questionnaires seeking essentially the same basic information may ask the question in a slightly different way — different metrics, time frames or organizational scope, for example. In our survey, respondents bemoaned this lack of standardization.

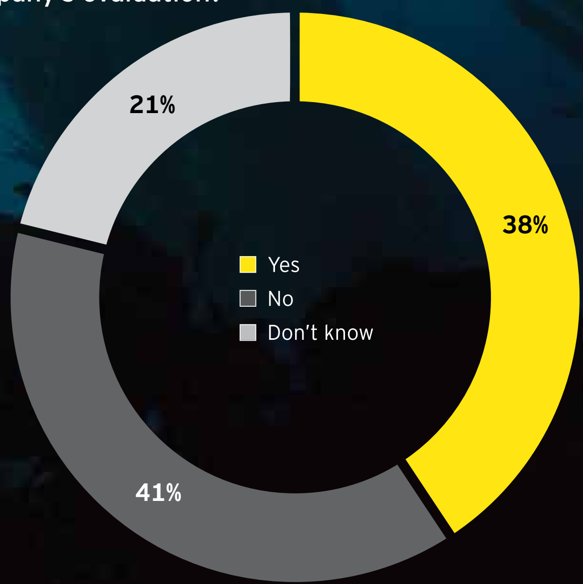
Does sustainability matter to analysts?

Historically, equity analysts haven't considered environmental and social impacts as significant drivers of stock value for most companies. But that's changing quickly. In our survey, 38% of respondents report that they believe equity analysts who cover their company consider sustainability performance in their evaluations. Another 30% believe analysts will do so within the next five years.

Those findings are consistent with an earlier Ernst & Young global survey, published in a 2010 report, *Action amid uncertainty*. In that survey, 43% of respondents said equity analysts are currently including climate change-related factors in the valuation of their company. A further 30% believed analysts will incorporate climate change factors within the next five years.

One reason analysts are tuning into sustainability is because such data is now at their fingertips. In 2009, the Bloomberg financial network began streaming sustainability data (referred to as ESG, or environmental, social and governance data) on its roughly 315,000 terminals worldwide. Today, ESG data is available for more than 5,300 companies (though only about 3,000 companies have comprehensive data) on Bloomberg terminals. Perhaps more significantly, the number of users of ESG data by Bloomberg customers grew 50% during 2011, and the amount of data they accessed doubled over 2010.

Do you believe the equity analysts who cover your company consider sustainability performance in your company's evaluation?



Six action steps

1 Actively pursue a sustainability and reporting system that exemplifies a similar transparency and rigor as the system used for financial reporting.

2 Engage CFOs in sustainability efforts, such as choosing appropriate tools to measure, monitor and report on environmental and sustainability issues in a way that can measure progress, create value and enhance investor confidence. Additionally, encourage them to embed the sustainability strategy into the core strategy of the business.

3 Recognize that employees are a key stakeholder and a vital source of sustainability engagement and ideas to enhance the company's sustainability journey. Employee involvement is needed to embed sustainability into the corporate culture.

4 Understand that greenhouse gas disclosure has value outside of the regulatory arena due to its utility for stakeholders, investors, customers and suppliers. Independent verification of GHG emissions is important, not only for accuracy, but also for its usefulness by both internal and external stakeholders.

5

Assess the availability and reliability of strategic business materials and resources from a sustainability perspective. Develop a risk management plan addressing contingencies for disruptions in access to key resources, and integrate risk assessments and plans in sustainability reporting.

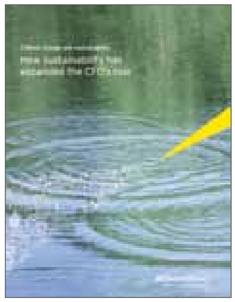
6

Understand the value of sustainability reporting to ranking and ratings organizations, particularly those of interest to investors. Consider third-party assurance in order to enhance the value of such reporting by shareholders and others.

Our point of view

Download our current thought leadership and research findings at *ey.com/climatechange*

Seven questions CEOs and boards should ask about 'triple bottom line' reporting



How sustainability has expanded the CFO's role

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About the GreenBiz Group

GreenBiz Group is a media, events, and research company whose mission is to define and accelerate the business of sustainability. It does this through its acclaimed website GreenBiz.com; conferences and events; and the GreenBiz Executive Network, a membership-based peer-to-peer learning forum for sustainability executives.
More information: *www.greenbiz.com*