
What do you think?

A series of hypothetical case studies to encourage thoughtful discussion on emerging topics.

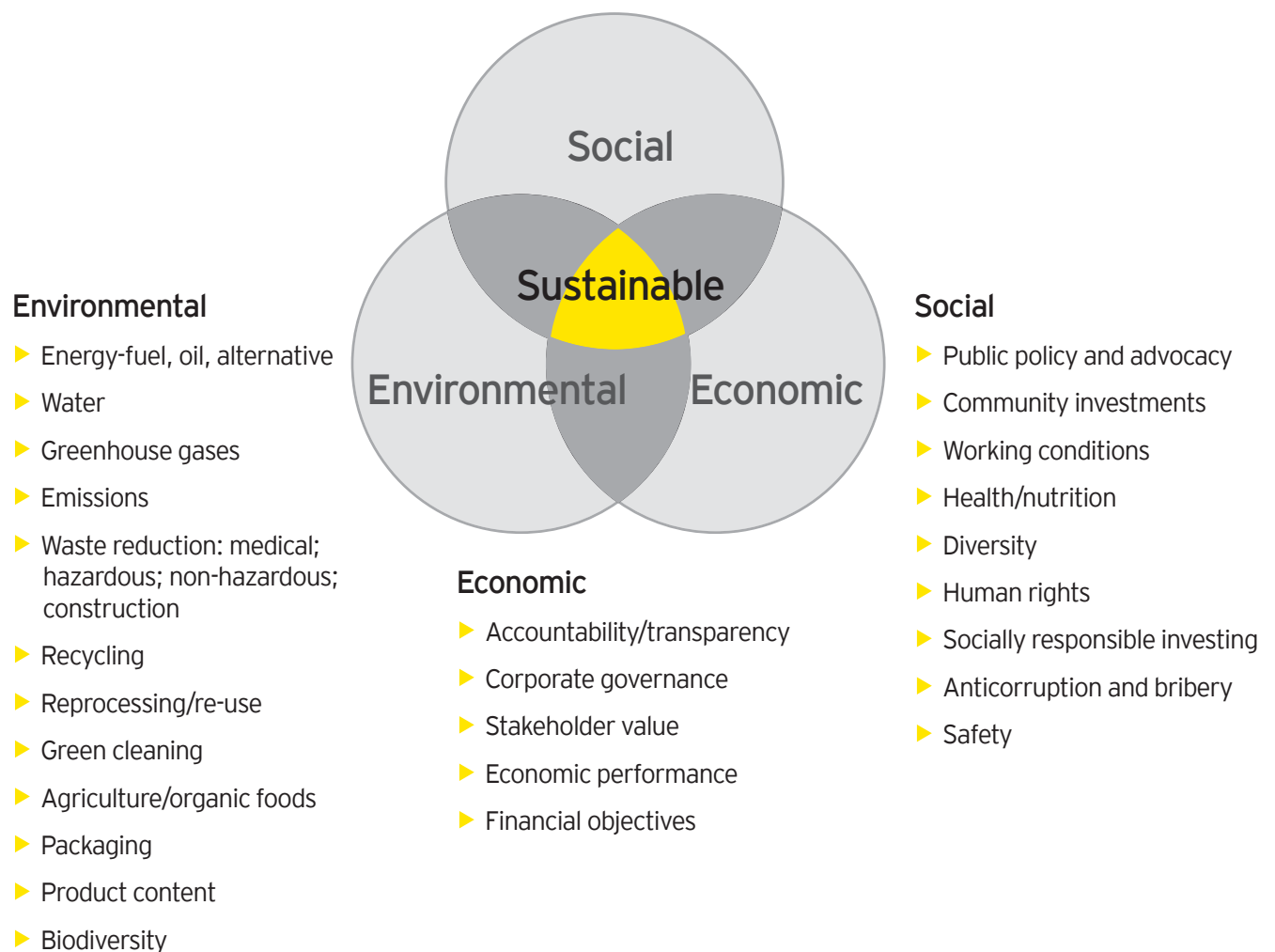


TBL Technology considers sustainability reporting

What is sustainability reporting?

Sustainability reporting is a process for publicly disclosing an organization's economic, environmental and social performance. Many organizations find that financial reporting alone no longer satisfies the needs of shareholders, customers, communities and other stakeholders for information about overall organizational performance.

The term "sustainability reporting" is synonymous with citizenship reporting, triple bottom line reporting and other terms that encompass the economic, environmental and social aspects of an organization's performance.



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This is the first in Ernst & Young's *What do you think?* series, which presents current issues in a fictional C-suite setting to facilitate thoughtful discussion in and out of the classroom.

In the face of mounting pressure to be transparent, a growing number of organizations are choosing to report on sustainability or corporate social responsibility (CSR). Sustainability reports help readers understand how well the reporting organization adheres to the “triple bottom line” of environmental, social and economic performance. Typically released voluntarily, these non-financial reports also spotlight the sustainability-related risks and opportunities facing the reporting entity, whether it’s a public or private company, a government agency, an academic institution or a nonprofit.

An organization that reports on its sustainability practices is expected to show not only where it has succeeded, but where it may have fallen short. This creates an element of reputational risk in the short term. But over the longer term, the risk is outweighed by significant benefits:

- ▶ Better measurement of the organization's “triple bottom line” performance
- ▶ Greater stakeholder trust
- ▶ Improved risk management
- ▶ Increased operational efficiency

Many of these benefits derive from the internal processes and controls companies put in place to help them collect, store and analyze non-financial data. Obtaining real-time, quality data on issues such as greenhouse gas (GHG) emissions, water use and supply chain activities can help companies enhance decision-making while reducing risk. Failure to report on sustainability, by contrast, can increase risk – the corporate adage, “What gets measured, gets managed” is particularly applicable here.

Companies that do not release sustainability information may appear less transparent than competitors that do, coming across as laggards even if they aren't. And those that report incompletely, or with insufficient rigor, may find that if reporting becomes mandatory and standards are tightened, glaring discrepancies might appear between past reports and newer ones. All of these factors have created momentum in the direction of more openness and more reporting.

Although most reporting is voluntary, the broad trend is toward greater disclosure. Voluntary global reporting standards have been developed to guide organizations in preparing sustainability reports. As a result, many are considering reporting, but have not yet set up the processes and systems needed to do it properly. Others are seeking ways to enhance the quality of their reporting, both to manage their reputation and to reduce any long-term risks related to sustainability.

The new Chief Sustainability Officer is evaluating her role

Rebecca Onslow-Smith, the new Chief Sustainability Officer (CSO) at TBL Technology (TBL), a global technology manufacturer of diodes based in the US, turned off the television and began getting ready to go to the office. The early morning news had featured video from yesterday's demonstration outside the headquarters of Global Competitor, Inc. (GCI), one of TBL's major competitors. The demonstration, which had resulted in some arrests, had taken place in response to an unexpected environmental disaster at one of GCI's South American plants. The report included an interview with highly critical comments from the Director of GreenWatch South America



(GWSA), an ecological non-governmental organization (NGO). Rebecca recognized him immediately.

In her previous role as TBL's Director of Corporate Social Responsibility (CSR), Rebecca had initiated preliminary discussions about the feasibility of these two organizations cosponsoring a mentoring project for sustainable technological plant management in Colombia. In her CSR role, Rebecca's job description and personal priority was to find ways to integrate TBL's business objectives with the varied, multinational communities in which the organization now operated. The mentoring program in Colombia was a good way to kick off this South America initiative, but Rebecca made a note to call the Director and make sure that TBL was not next on GWSA's list of corporate targets.

Now, as CSO, Rebecca had responsibility for both the social and environmental aspects of sustainability, and reported to the CEO. While she welcomed the challenge, the first thing she realized was that she would need help with the issues and challenges connected with reporting on TBL's sustainability initiatives. She needed to speak with John Lawrence, who had just replaced her as TBL's Director of CSR, to get a clearer view on a few points. John had been in the CSR role for only six months, reporting to Rebecca, but he had a 15-year career with the company, most recently as senior plant manager for TBL's largest US facility. In that role, John had not only assisted with the company's annual carbon footprint calculation but had also initiated programs to reduce TBL's waste stream and introduced plans for greening aspects of TBL's supply chain.

Rebecca had supported John's promotion to replace her as Director of CSR. Overall, she knew that her new CSO role would require additional support. The environmental piece of her CSO responsibilities was going to require major effort from her team and represented a learning curve for her. TBL's competitors were stepping up their game. The

shareholders were beginning to ask more questions, and she had just received a marketing report focused on customers' demands for greener products and evidence of corporate environmental stewardship. She was concerned that the company did not seem to be getting credit for all of the good work it had been doing to demonstrate good corporate citizenship. Particularly, she noted that a competitor that was not doing anywhere near as good a job as TBL in addressing sustainability issues had already published a sustainability report and had been getting extremely favorable press. She was also concerned that TBL might not be building the "social license to operate" in the countries where it operated, and she wondered about the company's ability to withstand the sort of disaster that had just struck GCI. John would definitely have his work cut out for him.

Rebecca also wanted John's help in exploring what it would take to start using the GRI (Global Reporting Initiative) Reporting Framework. She had long been an advocate of triple bottom line reporting and saw that John could help her make the case to management and the board. Rebecca was also thinking globally. She was aware that TBL's current oversight functions had neither the language skills nor the cultural skills to effectively support sustainability reporting at the company's new and projected manufacturing facilities. She shuddered at the thought of the issues that could arise from a simple cultural misunderstanding about the need for transparency.

Rebecca was also aware that TBL's new recruits had been particularly interested in understanding social responsibility aspects of the company's operations. In a related development, the head of HR had recently mentioned the grassroots employee "green teams" that had been sprouting up around the company worldwide, looking for opportunities to make TBL greener. Rebecca needed to find a way to communicate to recruits and employees the steps TBL was taking to demonstrate its commitment to environmental stewardship and overall corporate citizenship.

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However, Rebecca was beginning to think that all of these CSR projects might have to be reprioritized in favor of concentrating on the global implementation of sustainability reporting. A final check of her phone messages revealed that the General Counsel (GC) wanted to set up an appointment with her and John. Rebecca knew that the GC was somewhat conflicted about the possibility of more reporting transparency and the litigation risk of exposing too much about what TBL was doing.

It was going to be a busy day.

The Chief Executive Officer says grow, grow, grow

Malcolm O'Brien, the CEO of TBL, finished reading the morning's financial journals and allowed himself an unaccustomed second cup of coffee. The CEO of GCI had just made an unfortunate appearance in the media about the environmental disaster at the South American plant. As Malcolm watched the stock ticker across the bottom of his computer screen report GCI's plummeting share price, he made a mental note to ask his CSO about the status of TBL's environmental business continuity planning and the risk management processes that were involved.

Also on Malcolm's agenda for their meeting later in the day was how to fit due diligence from a sustainability perspective into his aggressive merger and acquisition strategy. Malcolm's goal was to gain a 60% market share in the industry, making TBL the largest laser diode manufacturer – outpacing its nearest competitor by almost a 2-to-1 ratio. Malcolm also made a note to discuss with John the possibility of acquiring the Solar Capture Company (SCC), a cleantech company whose production of digital and electronic controls for solar heliostats looked promising.

Malcolm thought that the acquisition of SCC would highlight TBL's determination to be known as a green company. SCC had been consistently profiled as an ecological pioneer in the business press for its innovative renewable energy technologies. At the very least, such an acquisition might help to meet some stakeholder expectations while helping TBL diversify beyond its core laser diode business. But he was beginning to hear murmurs of resistance from the Audit Committee around his expansion plans, and he knew there would be resistance to any expenditure not deemed an immediate necessity.

The Chief Financial Officer worries

Sally Cho, TBL's Chief Financial Officer, looked at her watch. This morning she was due to recommend to TBL's CEO whether TBL should move ahead and issue a sustainability report. Sally had spent hours the night before poring over the CSO's proposal for what that report should contain. Sally still had reservations about how much this was going to cost, but she was convinced that sustainability reporting would fit into evolving stakeholder expectations and the company's business objectives. Most important, Sally thought reporting could help TBL with the analyst community; the company would likely be viewed more favorably by investors if TBL's performance metrics around sustainability were more readily available.

She personally found the CSO's proposal compelling – looking at what TBL's competitors were doing, and highlighting the fact that certain environmental NGOs were attacking technological manufacturers like TBL for their use of rare earths. Sally also thought there was an opportunity to win over customers in TBL's increasingly competitive space. She was considering some of the environmental impacts and risks of its manufacturing operations and some of the labor risks presented by its numerous suppliers overseas. She was concerned

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about how increased reporting and transparency would also make it more apparent that TBL should make additional investments to green its manufacturing and business processes. Sally also realized that this would require a lot more work for her already stretched team, and she wondered if she would need to bring in some outside help.

But sustainability reporting was definitely going to be a big change for TBL, and Sally wasn't sure that all of the possible ramifications had been covered in Rebecca and John's argument for triple bottom line reporting. There were going to be people in the company who weren't going to like it or see the necessity. And she wondered if sustainability reporting would prove to be too costly.

Sally sighed. She would agree to support the plan – but she needed more information about what this was going to cost in terms of both budget and resources. “But the real question to answer,” she thought, “is whether TBL could afford not to report.”

The Audit Committee Chair demands checks and balances

Sashi Gupta, the Audit Committee Chair of TBL, stepped into the elevator and punched the button for the 30th floor. She was agitated by Malcolm's seeming lack of concern around the risks of taking on so many acquisitions so quickly. She was determined to make sure that Malcolm and his management team fully understood every aspect of the company's risk profile – in all jurisdictions – before agreeing to anything.

Sashi also viewed a new reporting initiative at this juncture with some alarm. “Basically, I need a crash course in sustainability reporting,” she thought. “I don't really understand it, and I have no idea of how we can even judge the credibility of the data.” And Sashi needed to understand to what extent investment agencies were reporting on this triple bottom line data and how institutional investors were using this data when evaluating companies.

Sashi planned on making it clear to John and Rebecca that an enterprise-wide risk assessment was her top priority. She had read their vision for initiating TBL's sustainability reporting, and she was not overtly opposed.



10 questions for discussion

- ▶ Given the situation described above, does it make sense for TBL to initiate sustainability reporting?
- ▶ What should Rebecca and John's top three reasons be for TBL to issue a sustainability report?
- ▶ Would these reasons be the same for the CFO, the CEO or the Audit Committee Chair? If not, what would the difference(s) be?
- ▶ What information should this report contain?
- ▶ Who would constitute TBL's stakeholders in this initiative?
- ▶ From a sustainability point of view, what are the risks in the CEO's emphasis on acquisitions?
- ▶ Should sustainability reporting be one of a CSR director's top concerns?
- ▶ How can Rebecca and John convince the Audit Committee Chair and the CFO that sustainability reporting makes sense?
- ▶ What should TBL do to determine if it has the in-house capability to initiate sustainability reporting?
- ▶ What would the role of TBL's current auditors be in this initiative?

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