

Deloitte.

Risk Intelligence Series
Issue No. 11

The risk intelligent approach to corporate responsibility & sustainability



Audit . Tax . Consulting . Financial Advisory .

Preface

The publication represents the 11th installment in a series on Risk Intelligence. The concepts and viewpoints herein build upon those discussed in the first whitepaper in the series, *The Risk Intelligent Enterprise™: ERM Done Right*, as well as subsequent titles. You may access the previous whitepapers in the series free of charge at www.deloitte.com/RiskIntelligence.

Unfettered communication is a key characteristic of the Risk Intelligent Enterprise. Consider sharing this whitepaper with the other executives, board members, and key managers at your company. The issues outlined herein will serve as a starting point for the crucial dialogue on raising your company's Risk Intelligence while enhancing your approach to corporate responsibility and sustainability.

Disclaimer

These materials and the information contained herein are provided by Deloitte Touche Tohmatsu and are intended to provide general information on a particular subject or subjects and are not an exhaustive treatment of such subject(s).

Accordingly, the information in these materials is not intended to constitute accounting, tax, legal, investment, consulting, or other professional advice or services. The information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

These materials and the information contained therein are provided as is, and Deloitte Touche Tohmatsu makes no express or implied representations or warranties regarding these materials or the information contained therein. Without limiting the foregoing, Deloitte Touche Tohmatsu does not warrant that the materials or information contained therein will be error-free or will meet any particular criteria of performance or quality. Deloitte Touche Tohmatsu expressly disclaims all implied warranties, including, without limitation, warranties of merchantability, title, fitness for a particular purpose, noninfringement, compatibility, security, and accuracy.

Your use of these materials and information contained therein is at your own risk, and you assume full responsibility and risk of loss resulting from the use thereof. Deloitte Touche Tohmatsu will not be liable for any special, indirect, incidental, consequential, or punitive damages or any other damages whatsoever, whether in an action of contract, statute, tort (including, without limitation, negligence), or otherwise, relating to the use of these materials or the information contained therein.

If any of the foregoing is not fully enforceable for any reason, the remainder shall nonetheless continue to apply.

Table of contents

Preface	ii
The risk intelligent approach to corporate responsibility & sustainability	1
The new competitive landscape	2
Stepping towards risk intelligence	4
A clear destination	10
Contacts	13
Endnotes	14
Sidebars	
The CR&S continuum	3
Defining CR&S	4
Characteristics of the risk intelligent enterprise	5
The quintessential CR&S issue	6
Educate responsibly	8
A special case: greenhouse gas emissions	10
The righteous right	11
Why assure?	11
CR&S standards, guidelines, and frameworks	12



The risk intelligent approach to corporate responsibility & sustainability

Color code a world map for corporate responsibility and sustainability (CR&S), and you'll find lush greens in Western Europe and Oceania.

You'll see a split palette in North America — verdant tones in Canada and hazy browns in the United States and Mexico. Asia will show variable tints, while Eastern Europe, Africa, and South America, with a few exceptions, will lack emerald hues.

Zoom in closer, though, and you'll observe significant variabilities in CR&S performance that defy geographical groupings. A Kenyan contractor may score high marks for responsible and sustainable practices, while an English enterprise may prove lacking. Indeed, though certain predictions about CR&S performance can be made based on geography, industry, market cap, and regulatory environment, in the end, the predilections of a company's executive team, board, and stakeholders trump other considerations.

In other words, you don't need to be a cartographer to see that CR&S is all over the map.¹

If you don't require a cartographer to map CR&S trends, neither do you need a seismologist to detect the tectonic shifts taking place in the world of business. The Richter needle trembles in disparate realms: energy and climate; government and politics; regulation and taxation; pollution and natural resources; population, labor, and human rights; war and terrorism; trade and finance; healthcare and nutrition. The strands of interconnectivity that bind these topics, once loosely woven if not largely invisible, are becoming increasingly taut, and the implications are only just beginning to be perceived. Risks are multiplying, combining in new configurations, and cascading in ways rarely envisioned.

How do you make sense of this messy amalgamation? How can you determine the potential impact on your company of all these unknowns and intangibles? Well, to divine the future, you could pore over producer and commodity price indices, scrutinize interest rates and share price trends, and examine labor and wage statistics.

Or you could just order yourself a beer.

That's right — a beer. The bar tab at your local pub might just tell you more about the interlocking CR&S trends affecting the business community than any of the metrics commonly employed in boardrooms, think tanks, legislatures, and academia.



Consider: The cost of a liter of beer at the 2007 Oktoberfest in Munich increased by 5.5% over the year prior.² A wide array of seemingly unrelated factors contributed to the rise. Here are a few of the interplays:

Expensive Beer, Scene 1: Climate change alters worldwide weather patterns. Lengthy drought in Australia and heavy rains in Europe depress barley production and spur spike in barley prices.³ Higher cost of barley, an essential component of the brewing process, leads to higher beer prices.

Expensive Beer, Scene 2: Biofuel is promoted as a panacea for myriad ills. Proponents claim the energy source will (1) reduce dependence on oil pipelines and shipping channels vulnerable to war and terrorism; (2) counter the rise of the petro-state and the U.S. and E.U.'s heavy dependency on OPEC supplies; (3) potentially reduce global warming and help meet the need for more environmentally-friendly energy. These factors provoke strong demand for biofuels, which, combined with governmental incentives, encourages farmers to plant crops such as rapeseed and corn (which can be turned into ethanol or bio-diesel) rather than barley.⁴ Decreased supply of barley leads to increased price and raises the cost of a pint of ale.

Expensive Beer, Scene 3: Diets in many "emerging" countries evolve toward a U.S.-style pattern that emphasizes meat and animal products.⁵ Meat consumption rises. Barley production is diverted from malting barley (used for beer making) to feed barley (used to fatten livestock).⁶ Reduced availability of malting barley leads to increased cost for brewers, which is passed along to the pub patron.

Thus, myriad interconnected factors force beer drinkers to dig deeper into their wallets, including climate, agriculture, war, terror, politics, energy, natural resources, transportation, taxation, diet, nutrition, population, and cultural trends.

And people crying into their beer is not the only negative outcome. The diversion of North American food crops to biofuel also causes a spike in the cost of corn, which affects consumers in Mexico for whom this cereal grass is a diet staple; many take to the streets in protest.⁷

In sum, a well-meaning objective — developing biofuels — spawns an unfortunate and wholly unanticipated outcome for beer drinkers and corn consumers alike.⁸

Of course, none of these examples provides straight-line scenarios. Some associations may be tangential. Other influences may come into play. And certain factors may be in dispute. For example, droughts and deluges have occurred throughout history; can the latest incidents be definitively tied to climate change? (Or, for that matter, is our climate truly changing? Some observers, albeit a minority, contend there is no such thing as global warming.)

But the point isn't to demonstrate direct cause and effect. Rather, it is to show that an intricate web of links, risks, and opportunities — often unanticipated or counterintuitive — can lead to undesired or unexpected results. And in business, the undesired can be detrimental; and the unexpected, potentially lethal.



The new competitive landscape

Like it or not, acknowledge it or ignore it, this is the new competitive landscape in which business will operate in the 21st century. The interlinking factors cited above, along with many others that fall under the rubric of corporate responsibility and sustainability, will be defining issues in the years ahead. These factors will contribute to value creation and value destruction. They will impact the war for talent and your ability to compete. They will demand your attention, occupy your time, and influence every facet of your business and that of your competitors.

Risk intelligent executives know that both threats and opportunities will present themselves in this new era of corporate responsibility and sustainability. These business leaders plan not to merely survive the rising ocean of change, but to sail purposefully through it. They realize that the circumstances are not analogous to developing a new product or entering an untested market or fending off a feisty competitor. Rather, these executives see the situation clearly for what it is: an entirely new environment in which they must compete for their own sustainability.

The CR&S continuum

Every organization can be plotted along a CR&S continuum, on a scale ranging from seemingly no socially redeemable activities whatsoever at one end to highly efficient and effectual programs at the other.

In Deloitte Touche Tohmatsu's experience, most companies are clustered around the middle: many are well-meaning but sometimes ineffectual; others are driven more by appearance than substance; few excel unequivocally or fail totally.

Where does your company stand among the models described below?

Charity Driven: The CR&S activities of some organizations can be summarized in a single word — charity. For decades, if not generations, these companies have bestowed generous gifts upon non-governmental organizations (NGOs) dedicated to educating children, eradicating disease, beautifying blight, and other worthy causes.

Deloitte's take: Charity is, of course, noble and commendable and should be encouraged. But if charitable giving represents the entirety of your CR&S program, your initiative is, in Deloitte's opinion, neither maximizing the potential impact nor generating the possible returns that it could if done in concert with other CR&S initiatives.

Report Centered: For other business executives, corporate responsibility and sustainability revolves around their annual CR&S report. Knowing that the report is the public "face" of their CR&S programs and activities, the company devotes significant resources to documentation and presentation.

Deloitte's take: There is, of course, a compelling need for reporting on CR&S activities. But nonfinancial reporting is still in an early stage of development, and certain inherent limitations may diminish the value of the report. Consider:

- No single, widely accepted standard exists for measuring the various elements of a CR&S report, making meaningful comparisons between companies difficult, if not impossible.
- In most locales, reporting is voluntary, and information can be included or omitted as desired. This may result in a biased report.
- Verification is inconsistent, as relatively few companies get their CR&S reports independently audited. This can, to some observers, call into question the validity of the reporting.

These limitations should not lead to the conclusion that CR&S reporting should be abandoned. Quite the contrary. Until comparable standards, definitions, and measurements are in place to unify CR&S reporting, companies will need to take it upon themselves to produce reports that serve the needs of its users and that simply and clearly describe the ongoing implementation and results of a well-thought-out and -executed strategic CR&S plan.

Active and Well-Intentioned: Another example may be found at companies that have amassed a varied and lengthy list of CR&S credentials. The organization employs a diverse workforce; supports NGOs through grants and donations; collects toys and food for the needy; recycles paper at the office; and insists on socially responsible partners and suppliers. Well-respected in the community and perceived as a role model for CR&S, the company rarely says no to a funding request or turns its back on a cause.

Deloitte's take: This approach, while certainly well-meaning and earnest, can be scattershot. Some of the activities may be low value — not to the beneficiaries, of course, but to the benefactor. In some cases, these initiatives may do little to improve the long-term fortunes of the company.

Disconnected and Minimalistic: Some companies perceive CR&S as essentially a mandated chore. They reliably meet all regulatory requirements but don't necessarily place their compliance activities into a larger context. They dutifully respond to requests for reporting on, say, carbon usage and greenhouse gas emissions, yet they don't tie these disclosures to an active program of meaningful reduction. These companies are not attempting to evade, per se; rather, they are so intently focused on their short-term business goals that long-term sustainability is unintentionally ignored.

Deloitte's take: Driving shareholder value can be done along a green pathway. Companies don't need to abandon business success to embrace CR&S. Properly approached, above-average profitability and sustainable activities can go hand in hand.

Integrated and Strategic: These companies conduct their CR&S activities with a greater purpose in mind. They develop a carefully orchestrated corporate responsibility and sustainability effort, aligned and integrated with existing strategic initiatives, and coordinated with an intelligent approach toward the related risks and rewards.

Deloitte's take: Through this approach, the acts of giving, conserving, and volunteering exist in harmony, aligned with the company's core business and strategy. Beneficial impact to the community can be enhanced; ROI for the company can be attained.

Deloitte contends that the topic of corporate responsibility and sustainability should be on the minds and agendas of every executive and board at companies across the world. This is not an assertion derived from morally righteous reasoning. Altruism may be noble, but it is an insufficient rationale for business (as opposed to NGOs and governments). Rather, Deloitte sees corporate responsibility and sustainability as a more fundamental imperative: Those companies that fail to proactively address CR&S may find themselves on the path to corporate extinction.



To prepare for the coming sea change, ponder a few of these questions:

Are you ready to start paying for what was formerly free? What will be the impact of a carbon tax on your organization? What happens as water supplies evaporate and costs surge? What will be the impact of accounting for these items on your balance sheet and income statement?

Have you anticipated the effect of shifting demographics on your business? How will trends in aging, education, and immigration shape your company in the years ahead? How will these developments impact your customer base? Do you have a “people” strategy? How are you going to retain your key employees?

Do you have a contingency plan for responding to activists or NGOs who may target your company? Can you withstand a barrage of bad media? Are you taking into account the power of the Internet in terms of distributing information (and disinformation), mobilizing protests, and forming public opinion? Are you in a position to harness that power to your advantage?

How will you anticipate your stakeholders’ needs? How will you maximize your shareholders’ investment? How can you add value to the community? And, how can you accomplish all this while at the same time avoiding conflict and setbacks?

These questions, of course, represent just the tip of the (melting) iceberg. Successfully addressing these and myriad other issues constitute the challenge that is CR&S.

Defining CR&S

Companies addressing economic, social, and environmental issues do so using various nomenclature, including:

- Corporate social responsibility (most widely used)
- Corporate responsibility
- Sustainability
- Corporate responsibility & sustainability
- Enterprise sustainability
- “Green” or “Greening”
- Climate change
- Eco-friendly
- Corporate citizenship
- Conservation
- Environmental and social responsibility
- Social responsibility

While the terms vary, they all generally refer to the same set of activities: strategically managing the social, environmental, and ethical risks and opportunities of business.

Stepping towards risk intelligence

Deloitte contends that the CR&S challenge can be met through the principles of Risk Intelligence — our philosophy on effective risk management. Many characteristics distinguish The Risk Intelligent Enterprise (see box on page 5)⁹ but one trait warrants additional emphasis: risk taking for reward. In Deloitte’s view, companies that focus solely on risk avoidance (the traditional realm of risk management) may survive but rarely thrive. Instead, companies should take a proactive approach to CR&S, one that sees not just peril but opportunity.

A Risk Intelligent approach to sustainability can yield benefits that extend far beyond the “feel good” aspects of charity-driven or green-focused efforts. A strategically driven CR&S program can help improve operations, attract talent, promote positive public relations, enhance transparency and

accountability, streamline regulatory compliance, inspire supply chain partners, draw investors, energize stakeholders, heighten competitiveness, and, ultimately, boost the bottom line.

Ambitious goals? Unquestionably. And the benefits won't flourish instantaneously or simultaneously. Some may be measured in months or quarters; others may be drawn out over several years or even decades. But the Risk Intelligent approach outlined below may make the steps more understandable, manageable, and attainable.



Step 1: Understand the present

Evaluate the regulatory climate.

Conduct a regulatory and “state of the world” review. What are the trends and forecasts for CR&S legislation? Are new environment, health, labor, and workplace safety regulations on the horizon? What impact might they have on your business?

Benchmark the field.

What are your major competitors doing right now in terms of sustainability? Do they have innovative programs in place? Are they ahead of your organization? Are they gaining competitive advantage? Create a catalogue of leading practices and creative initiatives that may be adopted.

Survey stakeholders.

Find out what is important to your customers, suppliers, employees, lenders, insurers, NGOs, and, of course, shareholders. Survey your board, your management team, and your business partners. Query analysts and consultants, your law firm, and your accountant. Troll your upstream and downstream supply chain. What are the values of these stakeholders? What issues do they care about? Aggregate and analyze their responses.

Characteristics of the risk intelligent enterprise

Risk Intelligent Enterprises are companies that have attained an advanced state of risk management capabilities. Many characteristics define such companies. A Risk Intelligent Enterprise:

Develops Full-Spectrum Vision: Effectively assesses and manages risk across divisions, departments, companies, and geographies.

Bridges Silos: Acknowledges the need for risk specialization — deep knowledge of specific risks and responses — but constructs bridges between risk “silos.”

Speaks a Common Language: Develops common risk terminology (so that everyone speaks the same language), and adopts common metrics (so that everyone measures risk in a comparable manner).

Assesses Impact: Realizes that, with a nearly infinite number of risks, planning for them all is impractical, if not impossible. Focuses on the finite impacts that could result from multiple threats.

Weighs Vulnerability: Augments the conventional risk management emphasis on probability by placing significant weight on vulnerability, since risk at the extremes is often the deadliest.

Considers Risk Interaction: Adopts an approach that does not solely consider single risk events, but also takes into account risk scenarios and the interaction of multiple risks.

Allocates Resources Appropriately: Conducts a comprehensive risk assessment and then prioritizes and focuses efforts on the areas of greatest risk.

Cultivates Risk Consciousness: Considers risk management an organization-wide responsibility, part of the everyday operations of the company and the routine duties of its people.

Pursues Risk Taking for Reward: Seeks not only risk mitigation, but also pursues risk taking as a means to value creation.

The quintessential CR&S issue

For many, climate change is the quintessential CR&S issue, topping agendas in legislative chambers and corporate boardrooms across the world. Former U.S. Vice President Al Gore may have raised awareness, but for many industries, climate change was on the radar screen long before “An Inconvenient Truth” was on the video screen.

Planning an effective climate change strategy is becoming essential for executives in many industries. Climate change presents a host of uncertainties, including:

- **Regulatory uncertainty:** The final nature and extent of individual country government limits on greenhouse gas (GHG) emissions and their intensity is still unknown.
- **Technological uncertainty:** There are currently no commercially available technologies to adequately mitigate carbon emissions. No one knows how fast technology will move or what the cost of any advances might be.
- **Carbon pricing:** Even companies that don't participate actively in traded markets will be affected by the price of carbon because it will impact the price of energy.
- **Physical environment:** Scientists are identifying a large number of potential changes in the physical environment that may result from climate change, such as more intense storms and rising water levels.

Uncertainty, of course, presents a prime breeding ground for risk. Thus, it is imperative to apply the principles of Risk Intelligence to the issue of climate change. One possible approach includes scenario planning as a tool that can help address these uncertainties, and allow businesses to prepare for the most plausible future situations. For more information on scenario planning, download *The Risk Intelligent Enterprise: ERM Done Right* at www.deloitte.com/RiskIntelligence.

Don't think of this exercise as a solitary event. Rather, two-way communications with stakeholders should become as routine as paying your vendors and your employees. Consider emulating the practices of Banco Bilbao Vizcaya Argentaria S.A. (BBVA), a financial services company headquartered in Spain. To maintain a free-flowing dialogue with its stakeholders, BBVA has established multiple systems for listening and communicating, and has created tools for detecting, measuring, and assessing expectations. For example,

the company established a shareholders management unit; created a department of investor relations; encourages broad participation in its annual general meeting; publishes a magazine addressing stakeholder issues; conducts periodic surveys on stakeholder expectations and perceptions; and developed a standard report to provide the CR&S committee with regular (not just annual) information on stakeholder priorities and perceptions.

Take inventory.

Virtually every company has activities and programs that fall under the CR&S heading. Take inventory of them all. Of course, the larger your organization, the more challenging your task, but a comprehensive accounting is fundamental to all that follows. If your organization has multiple divisions and far-flung operations, it may pay to appoint a CR&S champion at each outpost, who can serve as a point person for the initiative. The inventory process often brings a major fringe benefit: It gets employees excited about corporate responsibility and eager to take part in the effort.

Don't neglect the business of business.

Failing enterprises rarely make a lasting impact. Don't let the enthusiasm surrounding your CR&S initiative distract you from your primary responsibility: building value for shareholders. As Jane Nelson, director of the CSR Initiative at Harvard University's Kennedy School of Government, told *The Economist*, “the greatest business contribution to society is creating wealth.”¹⁰

Step 2: Envision the future

If you are a CR&S idealist, your first act should be to dispel any notions of grandeur. Your actions are not going to save the world.

That's not to say you can't have an impact. In fact, your company can make a profound difference, if it acts in a strategically focused manner. But you alone can't solve all the planet's problems.

So ask yourself: What do you want to be known for? What are your company's strengths? In what realm is your organization best positioned to make a mark? What is your organization's long-term vision? What are your key growth strategies?

UPS, the global package delivery enterprise, centered one of its CR&S initiatives on delivery route efficiency. Using computer modeling to find the optimal path between points A and B, the company cut energy use, reduced carbon emissions, increased safety, and generated hard-dollar savings. (See sidebar, “The righteous right,” on page 11.)

Corporate responsibility and sustainability is not a public relations initiative

Banco Santander, the largest bank in Spain, established an extensive micro-credit program in Latin America, providing low-cost business loans to farmers, female entrepreneurs, and other groups, and sponsoring workshops for the training of micro businesses.

Shiseido, a Japanese cosmetic company, holds free beauty seminars for various groups of disadvantaged people, including hospital patients, people with skin disorders, and the elderly.

In these cases, the CR&S activities were inextricably integrated with the company's core business strategies.

The point cannot be overemphasized: *A successful CR&S program will reinforce the organization's long-term vision and strategies.*

This principle can be applied to any business. A publishing company, for example, might make literacy a major charitable cause; could require its paper suppliers to use recycled pulp; could deploy its employees to libraries and schools; could donate books to disadvantaged youth; could promote creative writing contests with grants and scholarships as prizes; could develop electronic publishing capabilities to reduce its dependency on paper and ink. All of these activities would make sense in terms of supporting the core business and existing strategies, would boost the standing of the company in the community, would demonstrate responsible and sustainable practices, and could positively impact the bottom line. Conversely, sending employees to clean city parks or paint classroom walls may make significantly less sense from a strategic standpoint.

So ask yourself (and your team): What will be our company's legacy?

Step 3: Plan the journey

With the foundational steps in place, you can now determine what you want to accomplish with your CR&S program. Don't separate CR&S from your overall business strategies; they should be integrated, complementary, and mutually supportive. Consider amending your corporate mission statement to include CR&S.

At this critical stage, a few points should be kept in mind. One, remember that corporate responsibility and sustainability is not a public relations initiative; it should be much more than generating an annual report. Rather, it's about acting in a responsible, sustainable — and strategic — manner and then reporting on the successes and the challenges.

Two, prioritize your CR&S issues. You cannot deal with them all over the short run. Decide what your objectives are. What do you want your CR&S program to accomplish this year, next year, in five years?

Three, conduct a gap analysis. You have catalogued your own CR&S activities; you know what peers and competitors are doing; you understand the concerns of your stakeholders; you've surveyed the regulatory landscape; and you've established goals. Now you can document the gaps between where you are and where you want to be; between your organization and your competitors; between your present and future states.



Four, perform a Risk Intelligent scenario planning exercise: What is the risk of inaction? What are the opportunities for action? What problems and issues might arise that could thwart your objectives? Consider using tools such as the Risk Intelligence Map¹¹ to spur discussion and creative thinking around the potential risks that may threaten your CR&S objectives. Don't think solely about your CR&S program in terms of lessening negative impact, such as reducing your carbon footprint. Think also about risk taking for reward — about innovation, about finding solutions for environmental and sustainability issues, about making life easier for your customers. In other words, as you develop your strategy, look at the solution and income side, not just the problem and cost side.

Five, take a global perspective. Corporate responsibility extends beyond national boundaries more than many other initiatives. Even for companies that serve a local or regional customer base, many parts of their business can still have global components, including their supply chain and any offshore or outsourcing arrangements.¹²

Step 4: Plan and build

Assess your resource requirements for attaining your CR&S objectives. Budget should not be your first consideration. An effective CR&S program is as much about changing attitudes and behavior as it is about allocating euros, pesos, and yen.

Sometimes the human resources component of CR&S gets overlooked. One common mistake is to drop the initiative into the lap of middle management. This mentality — that “someone else is taking care of it” — should be avoided. Pull oversight of CR&S back up to the executive level. Demonstrate leadership and commitment to make good things happen. Your actions help to set the tone and establish the culture. Set high expectations and live by them.

Consider the roles and responsibilities required to attain your CR&S objectives. You will be asking employees to take on new duties; training and ongoing support should accompany your request. (See sidebar, “Educate responsibly,” on this page.)

Where do your strengths lie? What will be your company’s legacy?

One way to get employees behind a CR&S initiative is decidedly non-altruistic in nature: Build it into compensation plans and performance reviews. Money remains a great motivator, even in a realm where idealism appears to be a primary influence.

Your action plan should also incorporate accounting and tax issues. Many countries and regions offer grants and incentives for work related to energy alternatives, climate change, labor training, and green products. Where your company performs its activities can make a measurable difference. To address these opportunities and challenges, bring your operations, finance, tax, accounting, and human resources people together to discuss strategy and make decisions.

Additionally, think about non-traditional collaboration opportunities. Progressive companies collaborate with a much broader group of stakeholders than has traditionally been the case. For example, a leading beverage company works with NGOs and scientific/academic communities to innovate sustainable products, packaging, and processes. It surveys consumers to understand usage and disposal patterns, with results incorporated into sustainable product designs. And the company works with government bodies to develop efficient recycling infrastructures and to promote proper incentives for consumers and businesses to comply with regulations.

Consider starting your initiative with compliance issues: Take a sustainable, proactive approach to the rules and regulations that your company is subject to. Comply not just with the letter of the law, but with the spirit. Investigate and anticipate upcoming laws and regulations that may impact your business. Find efficiencies in integrated compliance activities.

Next, attend to ethical issues. Identify those areas where social mores come into play. Is an ethical culture at your company nurtured and nourished? Does your company operate in any gray areas? If so, how can they be clarified?

Once these basic areas are addressed, consider areas of innovation and intelligent risk taking for reward. Move beyond compliance and ethics and into the realm of what is good for society and beneficial to your business.

Educate responsibly

Your action plan will need an educational component, because for employees to thrive in the CR&S era, new skills will be required. Consider, for example, the hypothetical case of an industrial facilities director. His basic job description had remained the same for decades; he was simply ordered to keep his people on task and make the company profitable. Today, change is in the air. He (or, just as likely today, she) is being told to work with the local community; to meet with neighbors, unions, emergency personnel, and politicians; to attend meetings and perform community outreach. But many employees do not have the skills and training to engage in the dialogue, to communicate and integrate with the community, to deal with conflicts, emotion, and the unknown. Education is required to bridge this gap.

Step 5: Execute

Take your time. Don’t try to leap-frog to the finish line. Instead, take measured steps.

As you execute your plan, develop governance policies and procedures related to the implementation. These will provide valuable reference points as you move along in the process.

Step 6: Review and revise

To keep your CR&S program on track, you need to monitor your progress and assess your success. This means developing ways to measure your activities and compare them to your goals. Use hard data whenever possible: calculate hours, currency, units, and tons rather than anecdotes, impressions, feelings, and goodwill. Be flexible enough to modify your plans or change course as the situation dictates. Utilize feedback from stakeholders to assess course adjustments to your plans.

Step 7: Report and communicate

After working through the previous steps, it's time to take a fresh look at your CR&S report.

If you followed the recommendations above, you may find your old report barely recognizable. Items that seemed important then may appear trivial now. Your retooled CR&S program will likely lead to a significantly revamped report.

What standard should you use to prepare your report? Currently, a variety of reporting standards exist, each with its own strengths and weaknesses. (See sidebar, "CR&S reporting standards, guidelines, and frameworks," on page 12.) Although Deloitte sees a growing consensus on the issue, as of today, no "gold standard" exists for CR&S reporting. Thus, you should work with your board and advisors to determine whether an existing template, a customized report, or a hybrid will best serve your needs and those of your stakeholders.

Some companies may begin reporting even before they have all their systems perfected, either because they have no choice due to regulatory requirements, or because they use transparency as a driver for change.



Step 8: Assure (internally)

The review and revise process described in step 6 should not be a "once and done" exercise. The metrics that you developed to monitor your progress should be placed into regular use. Deploy these same tools to verify the data and claims contained in your CR&S report.

Measurement of nonfinancial data is unquestionably difficult, but is a process worth engaging in. To abet the process, consider tapping internal resources. For example, your internal audit group possesses expertise in business process analysis; financial, operational, compliance, and information technology control testing; and risk management, making them well-positioned for a consulting and assessment role in your CR&S program. Similarly, your legal department, environmental health and safety group, and human resources division all harbor capabilities that can be drawn upon.

Of course, some areas of your CR&S program will require entirely new skill sets. For example, deeply technical aspects of topics like greenhouse gases will require engineering skills that may have to be developed or recruited.

Step 9: Assure (externally)

In most countries, a publicly listed company is required to publish periodic financial statements that include independent assurance. The practice of providing this objective verification of financial data is so well established that it's hard to imagine producing a financial report without it. Yet the practice is relatively new, first mandated less than 100 years ago.

Today, CR&S reporting is in a nascent state not unlike that of financial reporting a century earlier. The nonfinancial data that makes up a typical CR&S report carries no requirement for independent assurance. Companies are, for the most part, free to include whatever information they wish, employing any metrics they desire. This latitude may simplify report preparation, but it does not necessarily enhance credibility.

As such, Deloitte recommends that once your company reaches a certain level of maturity in its CR&S program (i.e., once you have completed the steps outlined above), you obtain outside assurance of your CR&S assertions. Doing so will not only improve the reliability of your report, but will also put you ahead of the curve. Deloitte expects that within a decade, independent assurance of CR&S reporting will be mandatory in many jurisdictions. (See sidebar, "Why assure?," on page 11.)

You may also want to consider phasing in your CR&S assurance activities over time. Using a gradual, step-by-step approach, you might test only a few aspects of reported information in year one, and then extend the assurance process until you reach full coverage over the course of several years.

A special case: greenhouse gas emissions

When it comes to getting third-party assurance on greenhouse gas (GHG) emissions data, the story changes a bit. GHG emissions data are often used by financial and non-financial stakeholders in their decision making, and all the risks associated with inaccurate reporting of other CR&S-related data still apply. However, because this data may also be used to both determine compliance with regulations and to underpin trading schemes in carbon markets, there are additional financial, litigation, regulatory, and reputation risks, such as the risk of penalty payments, the risk of unnecessary offset purchases, and an even greater litigation risk.

Recognizing the heightened risk profile of GHG emissions reporting, many of the carbon markets that rely on the accurate reporting of such data, including the European Emissions Trading System (EU-ETS) and the Kyoto offset markets, mandate third-party verification.¹³

Some organizations obtain a measure of assurance through independent stakeholder council reports. Such reporting is valuable but may be complemented by independent external assurance. The stakeholder report can help you see issues in a different light by challenging whether you are really doing enough to be considered “sustainable.” At the same time, external assurance can provide greater confidence that the underlying report data is reasonably accurate, appropriately gathered, and properly summarized, in keeping with the declared standard or definition being applied by the company.



A clear destination

A CR&S effort can be daunting. It can involve multiple business functions, the supply chain, human rights, the environment and climate change, labor practices, and much more. To handle it effectively, you need a process. You must prioritize and tackle the most important and fundamental issues first. And you must be realistic, with a clear-headed understanding of what you are facing. In most cases, it will take two to five years to make significant headway. Nonetheless, it’s an essential journey. Failure to address the threats and opportunities presented by CR&S may impact the very sustainability of your organization.

Many companies already have pieces of a CR&S program in place, some quite sophisticated. These efforts need not be abandoned, but rather can be integrated into your new strategic blueprint.

For some, not every step described herein will need to be taken, but most should be considered. Rethink your approach to CR&S starting with the fundamental questions — Where do our strengths lie? What will be my company’s legacy?

Get those answers right, and the rest should follow naturally. You need to be true to your corporate roots. Your CR&S initiative should reflect the identity of your company. It should have strong ties to your business strategy. It should reinforce your company and your brand. And it should inspire your stakeholders.

The world awaits. It’s time to mount the bicycle and ride. But pedal with purpose and direction. Your CR&S program should not be all over the map, but must have a clear destination in mind.

The righteous right

When you are in the business of delivering more than 15 million packages a day, you tend to think a lot about how you are getting them from Point A to Point B. For United Parcel Service (UPS), getting this process right wasn't solely about improving service, reducing costs, promoting worker safety, or minimizing their impact on the environment — it was about all those things.

Known for its logistical savvy and almost military-like approach to optimization, UPS invests substantial research into what they term, "package flow technologies." This suite of technologies, which includes both proprietary routing software and a variety of hardware devices, is used to reduce the time and effort required for package handling on the ground, including the routes that drivers take as they make their rounds.

The routes created with this proprietary software have a distinguishing feature: Avoid left turns whenever possible. Why? According to UPS, left turns:

- Waste both time and fuel, due to the time spent idling;
- Contribute to a higher accident rate.

UPS reports that the "right turn" approach, together with other optimizations produced by their package flow technologies, trimmed nearly 30 million miles from their total number of delivery miles in 2007. That means UPS also saved roughly 3 million gallons of fuel, reducing emissions by over 32,000 metric tons of CO₂.

UPS provides an example of how a company can draw on their core competencies — in this case, "optimizing networks" — to develop and implement strategies that accomplish both financial and corporate responsibility and sustainability goals.

Getting it right wasn't solely about improving service, reducing costs, promoting worker safety, or minimizing impact on the environment — it was about all those things.

Why assure?

It's not mandated. It exposes you to outside scrutiny. It costs time and money. So why would anyone have their CR&S report audited?

Look a little closer and you'll find the rationale compelling: Companies seek external assurance for their CR&S reports to build trust and to reduce risk.

Build trust. External verification of CR&S disclosures gives an added level of comfort to financial stakeholders. More than 10% of U.S. investment assets under professional management are involved in socially responsible investing.¹⁴ A 2005 study found that a strong majority of financial stakeholders (71%) believe that CR&S reports should be "verified by a professional assurance or verification body."¹⁵ The same study suggests that such verifications are also important to NGOs (59%), academics (58%), and employees (46%).¹⁶

Reduce Risk. What is the impact to an organization if something disclosed in a CR&S report is later discovered to be inaccurate? The answer to that question depends on a myriad of factors, including (but not limited to) what that "something" is, the magnitude of the error, whether or not investments were made on the basis of the disclosure, how important engaged stakeholders find the "something" to be, and real or imagined intent. Seeking and receiving external assurance for the content of one's CR&S report can reduce the risk of inaccurate reporting.

Furthermore, opening one's organization to external scrutiny can galvanize management in its implementation of quality CR&S policies, processes, and reporting.

CR&S standards, guidelines, and frameworks

As with any emerging business practice, the standards and processes for reporting and assuring CR&S information are still evolving. Diverse — and sometimes competing — groups with differing objectives and approaches have tackled the task of developing the definitive (or at least, they hope, a widely adopted) framework. The following list is far from comprehensive but covers the more commonly adopted guidelines and frameworks.

Standard	What it is	Comments
Global Reporting Initiative's Sustainability Reporting Guidelines	Framework for individual organizations to use in the voluntary preparation of a CR&S report	<ul style="list-style-type: none"> q Commonly referred to as simply "GRI" q Covers a wide range of economic, social, and environmental disclosures q Includes sector supplements q Used by approximately 21% of organizations who issued a CR&S report in 2007¹⁷
Carbon Disclosure Project	Nonprofit organization that collects and analyzes survey data on greenhouse gas emissions	<ul style="list-style-type: none"> q Annual survey is sent to a sample of publicly traded companies q Includes questions on strategic readiness for climate change q Full access to data is given to members, who are institutional investors
International Standard on Assurance Engagements 3000	Standard for providing assurance on non-financial information	<ul style="list-style-type: none"> q Issued by the International Federation of Accountants q Generic standard not specific to but often used to assure CR&S reports
AA1000 Assurance Standard	Standard for providing assurance on CR&S reports	<ul style="list-style-type: none"> q Issued by the non-profit organization AccountAbility q Approximately 3% of CR&S reports issued in 2007 were assured using this standard
SA8000	Cross-industry standard for the ethical treatment of workers	<ul style="list-style-type: none"> q Issued by Social Accountability International q Only organizations accredited by SAI can issue certifications to the SA8000 standard
Electronic Industry Code of Conduct	Standards for electronics companies and their suppliers	<ul style="list-style-type: none"> q Created by a coalition of electronics industry companies to reduce confusion among their suppliers q Provides for joint audits of suppliers through certified third-party auditors

Contacts

Mark Layton

Global Leader, Enterprise Risk Services
Deloitte & Touche LLP – United States
+1 214 840 7979
m Layton@deloitte.com

Eric Hespeneide

Corporate Responsibility & Sustainability
Global Leader
Enterprise Risk Services
Deloitte & Touche LLP – United States
+1 313 396 3163
ehespeneide@deloitte.com

Janet Lewell

Partner
Corporate Responsibility
Deloitte Australia
+61 3 9208 7318
jl Lewell@deloitte.com.au

Christophe Quiévreux

Partner
Enterprise Risk Services
Deloitte Belgium
+32 2 800 22 69
cquievreux@deloitte.com

Valerie Chort

Partner and National Leader
Corporate Responsibility & Sustainability
Services
Enterprise Risk
Deloitte Canada
+1 416 601 6147
vchort@deloitte.ca

Johanne Gelinias

Partner
Corporate Responsibility & Sustainability
Enterprise Risk
Deloitte Canada
+1 514 393 5408
jgelinas@deloitte.ca

Pablo Frederick

Senior Manager
Sustainability and Climate Change
Deloitte Chile
+56 729 8677
pfrederick@deloitte.com

Yvonne Wu

Partner
Enterprise Risk Services
Deloitte China
+86 61411570
yvwu@deloitte.com.cn

Preben J. Soerensen

Partner
Deloitte Denmark
+45 3610 3229
psuerensen@deloitte.com

Eric Dugelay

Partner
Corporate Responsibility & Sustainability
Global Working Group
Deloitte France
+ 33 155615413
edugelay@deloitte.fr

Joachim Ganse

Director
Deloitte Germany
+49 211 8772 2406
jganse@deloitte.de

Keiko Tatsuwaki

Partner, National CR&S Leader
Enterprise Risk Services
Deloitte Japan
+81 3 4218 7215
keiko.tatsuwaki@tohmatsumoto.co.jp

Chanhee Han

Partner
Enterprise Risk Services
Deloitte Korea
+82 2 6676-2203
chhan@deloitte.com

Sandra Heuts

Partner
Enterprise Risk Services
Deloitte Netherlands
+31 204547171
sheuts@deloitte.nl

Jacqueline Robertson

Partner
Audit and Assurance
Deloitte New Zealand
+64 4 470 3561
jacrobobertson@deloitte.co.nz

Aneta Wojtun

Director
Enterprise Risk Services
Deloitte Poland
+48 22 511 04 77
awojtun@deloitteCE.com

Helena Redondo

Partner
Assurance & Enterprise Risk Services
Deloitte Spain
+34 91 514 50 00
hredondo@deloitte.es

Mike Barber

Partner
Corporate Responsibility
Deloitte United Kingdom
+44 207 007 3031
mbarber@deloitte.co.uk

James C. Cascone

Principal
Audit & Enterprise Risk Services
Deloitte & Touche LLP – United States
+1 213 553 1300
cjcascone@deloitte.com

Tom Dekar

Vice Chairman and
Regional Managing Principal
North Central
Deloitte LLP – United States
+1 313 324 1181
tdekar@deloitte.com

Chris Park

Principal
Deloitte Consulting LLP – United States
+1 313 324 1258
chrpark@deloitte.com

Kate Pavlovsky

Principal
Deloitte Financial Advisory
Services LLP – United States
+1 713 982 4358
kpavlovsky@deloitte.com

Endnotes

- 1 Not only are CR&S practices widely variable, the term itself comes in a number of flavors: “corporate responsibility,” “enterprise sustainability,” and “green companies,” to name just a few. To sort it all out, see the box on page 4, “Defining CR&S.”
- 2 *USA Today*, “Biofuel Boom Raises Beer Prices in Germany,” May 28, 2007, http://www.usatoday.com/news/world/2007-05-28-biofuel-beer_N.htm
- 3 Wyn Grant, “Commentary on the Common Agricultural Policy of the EU,” March 4 2007, <http://commonagpolicy.blogspot.com/2007/03/biofuels-may-push-up-beer-prices.html>
- 4 Deutsche Welle, “Germany’s Cheap Beer Tradition Under Threat From Biofuels,” April 23, 2007, <http://www.dw-world.de/dw/article/0,2144,2451025,00.html>
- 5 United Nations Food and Agriculture Organization, “Press Conference on Soaring Food Prices and Action Needed,” by Dr. Jacques Diouf, Director-General, FAO; Rome, December 17, 2007, www.fao.org/newsroom/common/ecg/1000733/en/facts99.pdf
- 6 CNW GROUP, “Scotiabank’s Commodity Price Index Leaps in October,” November 28, 2007, <http://www.newswire.ca/en/releases/archive/November2007/28/c5206.html>
- 7 BBC News, “Mexicans stage tortilla protest,” February 1, 2007, <http://news.bbc.co.uk/1/hi/americas/6319093.stm>
- 8 Protests over high food prices linked to climate change and biofuel production have also taken place in other areas of the world, including Morocco, Uzbekistan, Yemen, Guinea, Mauritania, and Senegal. See reference #5, above.
- 9 Visit www.deloitte.com/RiskIntelligence for additional information on Risk Intelligence.
- 10 The Economist Intelligence Unit, “Doing good: Business and the sustainability challenge,” February 2008.
- 11 Contact your local Deloitte practitioner for additional information on the Risk Intelligence Map.
- 12 See the Deloitte publication, *The Risk Intelligent Approach to Offshoring and Outsourcing*, at www.deloitte.com/RiskIntelligence.
- 13 For more information about GHG emissions verification, including the challenges created by diverse measurement and reporting standards, see the Deloitte whitepaper, “When quality counts: The importance of emissions verification for greenhouse gases,” available at <http://www.deloitte.com/dtt/article/0,1002,sid%253D1009%2526cid%253D197890,00.html>.
- 14 Social Investment Forum, “2007 Report on Socially Responsible Investing Trends in the United States,” http://www.socialinvest.org/pdf/SRI_Trends_ExecSummary_2007.pdf. Accessed March 10, 2008.
- 15 Pleon Consulting, “Accounting for Good: the Global Stakeholder Report 2005,” April 2005, http://www.pleon.com/fileadmin/user_upload/ordner_pleon_com/ordner_insights/Pleon_GSR05_en.pdf. Accessed March 10, 2008.
- 16 Ibid.
- 17 According to CorporateRegister.com searches conducted on February 29, 2008, there were 2,345 CRS CR&S reports issued in 2007. Of these, 495 followed the Global Reporting Initiative guidelines and 70 were assured using AA1000.



Deloitte Global Profile

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in 140 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's 165,000 professionals are committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from cultural diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.