



# Corporate Environmental & Sustainability Reporting: A Series of Learning Circles

## LEARNING CIRCLE 1

**GOING LIVE: TWO-WAY COMMUNICATION WITH STAKEHOLDERS**

**MAY 23, 2002**

## LEARNING CIRCLE 2

**THE NEXT IMPERATIVE: ENGAGING THE FINANCIAL COMMUNITY**

**JUNE 20, 2002**

*Organized by*



*In collaboration with*



CANADIAN BUSINESS FOR  
SOCIAL RESPONSIBILITY

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Environment Canada, Industry Canada and Natural Resources Canada

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## Introduction

The Summit on Corporate Environmental and Sustainability Reporting, held May 18, 2001, generated a foundation of guiding visions to help Canadian companies expand the reach and vitality of their communications with diverse stakeholders: customers, employees, investors and local communities. Participants told us – and this has been confirmed by recent Canadian and international reports on sustainability reporting – there remains much more value to be obtained from corporate reporting. (The Report from last May’s Summit can be found at [www.SustainableEnterpriseAcademy.org](http://www.SustainableEnterpriseAcademy.org) and [www.sustreport.org](http://www.sustreport.org)).

In response, the Sustainable Enterprise Academy and the Sustainability Reporting Program convened a series of Learning Circles to provide Canadian companies with more in-depth opportunities to discuss future possibilities and develop their leadership role in communicating the value of strategic sustainability and environmental initiatives through their reports.

The May 23 Learning Circle focused on “Improving Two-way Communication with Stakeholders”. It featured presentations on the state of Canadian reporting, an innovative UK-based web reporting portal, and case study reports by leading Canadian corporate reporters.

The June 20 Learning Circle developed methods to “Engage the Financial Community”. It provided international and national perspectives on the drivers in place and needed to foster this engagement.

The Learning Circles were supported by Environment Canada, Industry Canada and Natural Resources Canada.

## Learning Circle 1

### Going Live: Improving Two-Way Communications with Stakeholders

#### AGENDA

*Welcoming Remarks:* David Wheeler, Schulich School of Business; Michael Keating, Sustainability Reporting Program; and Jim Frehs, Natural Resources Canada

*Update on Sustainability Reporting in Canada: The Stepping Forward Report –* George Greene and Julie Pezzack, Stratos Inc.

*Innovations in Reporting Formats: Web reporting, the UK Portal Experience of Business in the Community –* Mallen Baker, Business in the Community, and Rob Cameron, Flag Communications

*Setting the Scene 1: The Makings of a Winning Report: Case Study Presentation –* Don Wharton, TransAlta Corporation, 2001 National Post/CICA Award of Excellence Winner in Environment & Sustainability Reporting Category

*Setting the Scene 2: Stakeholder Engagement: Case Study Presentation –* Martin Holysh, Suncor Energy Inc.

*Plenary Discussion, Wrap-Up, Next Steps: Improving Two-Way Communications with Stakeholders –* David Wheeler, Chair

*Closing Remarks:* John Mills, Environment Canada

#### PROCEEDINGS

##### ■ **Update on Sustainability Reporting in Canada: The Stepping Forward Report – George Greene and Julie Pezzack, Stratos Inc.**

George Greene and Julie Pezzack presented an overview of Canadian reporting practices and opportunities for improved reporting. Their remarks were based on the research and analysis Stratos undertook in preparing *Stepping Forward*, a benchmark of corporate sustainability reporting in Canada that was published in November 2001.

*Stepping Forward* identified 57 reporting companies in Canada, which represent about 26% of the top 100 companies (by revenue). It examined 35 in detail, across a range of sectors and report types (sustainability, environmental, EH&S, social, community). The study used a “GRI-plus” methodology, which used indicators developed by the Global Reporting Initiative and added extended social, ethical and economic measures and measures that captured the Canadian context. The methodology included 52 criteria across 10 categories (see Table 1). It

assessed the extent to which issues were covered and the quality of information. It did not assess performance.

Table 1: GRI-plus Methodology

GRI	+ EXTENDED SOCIAL, ETHICAL AND ECONOMIC MEASURES	+ CANADIAN CONTEXT
<ul style="list-style-type: none"> <li>• Context &amp; Coverage</li> <li>• Leadership &amp; Direction</li> <li>• Policies, Organization &amp; Management Systems</li> <li>• Stakeholder Relations</li> <li>• Dimensions of Performance               <ul style="list-style-type: none"> <li>– Environmental</li> <li>– Economic</li> <li>– Social</li> <li>– Integrated</li> <li>– Extended Responsibility</li> </ul> </li> <li>• Qualitative Characteristics (relevance, reliability, comparability)</li> </ul>	<ul style="list-style-type: none"> <li>• Issue Identification</li> <li>• Public Policy Involvement</li> <li>• Additional Social &amp; Ethical Criteria</li> <li>• Additional Economic Criteria</li> </ul>	<ul style="list-style-type: none"> <li>• Voluntary Initiatives</li> <li>• Eco-efficiency Indicators</li> <li>• Aboriginal Relations</li> </ul>

## Results

The average report score was 55 (out of a possible 156). Report quality varied across sectors. Aluminum/steel, oil/gas, utilities, mining, and financial services all scored at or above average, and chemicals, pipelines, forests, and IT/telecom sectors scored below (some sector averages were skewed because of small sample size). Quality also varied across the 10 categories. Companies scored well on context and coverage, but less well when reporting on social and integrated measures and on articulating a future integrated triple-bottom-line vision and strategy. Only four companies specifically noted that they were following the GRI guidelines. These companies performed better than others.

## Improving Reporting

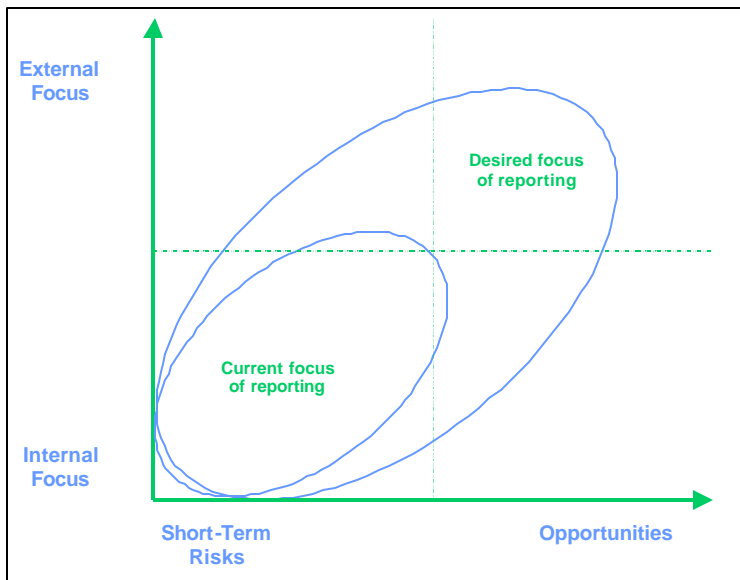
George outlined six opportunities for improving reporting:

1. Improve quality of performance information (by linking policies and performance, identifying key performance indicators, setting and communicating performance targets, presenting trend data, explaining shortfalls and action taken) to demonstrate that reported indicators are used in strategic and operational decision-making.
2. Seek stakeholder input on the issues you'll report on, then be transparent about the selection process.
3. Identify audiences, then select issues. Consider multiple reports targeted to different users. Develop methods to identify and engage stakeholders *and* to report their feedback and incorporate it into decision-making.
4. Use E-reporting to enhance access and provide audience-specific products or multiple reports. Hybrid reports may be the way of the future, with hard copy reporting on vision and direction, issues, performance summary and case studies; and web reporting that provides

information on policies and management systems, and facility-specific performance data. E-reporting can allow users to drill down into databases for user-specified information.

5. Increase credibility by being consistent across reports (SD report, annual, and externals, such as the National Pollutant Release Inventory), by providing “warts and all” reporting (poor performance, incidents, long-term challenges), involving stakeholders in the reporting process, and moving toward verification.
6. Move from risk- to opportunity-based reporting (see Figure 1).

Figure 1: Risk- vs. Opportunity-based Reporting



For more information, visit [www.stratos-sts.com](http://www.stratos-sts.com)

■ **Innovations in Reporting Formats: Web reporting, the UK Portal Experience of Business in the Community (BITC) – Mallen Baker, Business in the Community, and Rob Cameron, Flag Communications**

Mallen Baker and Rob Cameron provided an overview of the impetus for and advantages of a web-based reporting portal. The Impact on Society portal ([www.iosreporting.org](http://www.iosreporting.org)) was launched in December 2001.

The portal, explained Mallen, is the end point of a process that began in the late 1990s with the completion of a BITC-commissioned report called *Winning With Integrity*. With its business members facing increasing pressure (from pension funds, rating agencies and regulators) to report, *Winning with Integrity* produced a shortlist of recommended indicators. These represented essential, core information that a company of any size should be expected to give report against. The indicators, developed while GRI was still in its formative stages, were business-led with stakeholder input.



The IOS reporting portal was developed to allow BITC’s members to measure their performance against the indicator set, publicly report on it, benchmark against other IOS members and take part in coordinated learning sessions. Learning is key, noted Rob. Participating companies have discovered that the mere act of bringing together people internally to share CSR information has improved communication within the company and helped to implement operational improvements based on that information.

Firms are able to take a stepped approach to reporting, choosing the indicators they

want to report against across five indicator areas – marketplace, workplace, environment, community, human rights – and expanding as their data collection systems are developed. The site does not provide firm-to-firm comparisons. Twenty companies are part of the launch group, and BITC is currently expanding to add more. While some new reporters were concerned that they would be exposed to increased scrutiny, site data shows that there has not been a stampede of NGOs searching for company information.

**Flag Communication’s 3-D Reporting Imperative**

Reports must

- ✓ Demonstrate transparency
- ✓ Deliver value
- ✓ Drive performance improvement

**Next Steps**

Next steps include remote data entry by member firms; an “at a glance” reporting area for a snapshot perspective of each company; analysis of company-specific traffic; a user feedback facility; and coordination with similar projects in the European Union and, potentially, Canada.

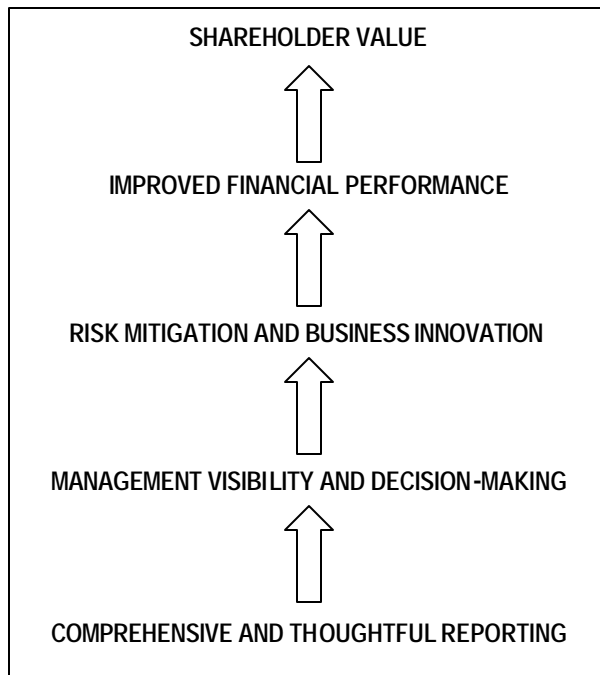
**For more information, visit [www.iosreporting.org](http://www.iosreporting.org); [www.bitc.org.uk](http://www.bitc.org.uk); [www.flag.co.uk](http://www.flag.co.uk)**

■ **Setting the Scene 1: Case Study Presentation – Don Wharton, TransAlta Corp.**

Don Wharton explained that at TransAlta, sustainability reporting is a business tool that can enhance shareholder value (See Figure 2).

TransAlta’s target audience is the financial community, including investment analysts, shareholders (current and future) and financial institutions. To meet the needs of its audience, TransAlta’s most recent SD report stresses risk management, financial implications and mid- and long-term business opportunities. TransAlta reports in electronic format only. Beginning in June 2002, the company will report on a quarterly basis, in line with its financial reporting.

**Figure 2: The Reporting Value Proposition**



Don described two means of building two-way communication. The first is to build trust and credibility by “inviting stakeholders in”. The second is to develop dialogue and learning by “inviting them to lunch”. The latter, explained Don, will help the company to better understand the needs of the communities it operates in, including what they want from the company’s reports.

TransAlta has set out four key methods to increase two-way dialogue:

1. Engage the target audience. Don noted many challenges in engaging the financial community, including issues of timeframes, metrics, brevity, and acceptance in general. To overcome these, TransAlta plans to integrate SD performance into investor forums; interview key analysts; and leverage its

investor relations' channels to communicate information out and gather it in.

2. Broaden its audience by engaging ENGO partners in business strategy building, which will feed into the reporting process; integrating stakeholder relations and external reporting; identifying potential audiences through an electronic survey; and reporting in Spanish.
3. Adapt the medium in order to do more with less. TransAlta plans to link its existing tools (SD annual report, investor mail-outs and meetings, regional stakeholder newsletters, etc.), regularize reporting, eventually on a monthly basis, and leverage current channels (corporate website and e-mail distribution).
4. Test for success in order to do a better job of measuring external business value. Steps include setting communication targets; setting business targets related to reporting; surveying target audience(s) to try to determine whether anyone reads or cares about the report; whether it makes the company smarter or more competitive; what business objectives were achieved; and what needs to change.

Don concluded by noting that reporting well and outward is a good place to start, but if reporting is to produce business value, it should create two-way interaction (which is not easy nor proven) and the two-way interaction must produce value for the reader (the success of which is also not easy to determine).

**For more information, visit [www.transalta.com](http://www.transalta.com)  
To view TransAlta’s report, visit [www.transalta.com/sd2001](http://www.transalta.com/sd2001)**

## ■ **Setting the Scene 2: Case Study Presentation – Martin Holysh, Suncor Energy Inc.**

Martin Holysh presentation focused on how Suncor Energy engages stakeholders in two-way conversation. In preparing its 2001 SD report, Suncor invited stakeholders “under the hood” by asking for comments on an early draft. Martin noted that engaging stakeholders is consistent with Suncor’s values and principles and taking engagement a step further allowed the firm to nurture existing relationships and gain access to resident experts.



### **The Process**

Suncor identified prospective stakeholder representatives who could comment on environment, social and economic areas of its triple bottom line report. It asked for input (and not endorsement) from individuals rather than organizations. Each individual was provided with an early draft and a series of questions about the report. Input was reviewed during conference calls with each reviewer.

While Suncor did not agree with or incorporate all suggestions, the exercise was valuable and provided better feedback than expected. Martin noted the review created “internal converts to the review process,” heightened company awareness in some areas (e.g., it learned that the term “sustainable growth” is controversial), provided an opportunity to test drive new concepts and also served as a check on currently held assumptions.

**For more information, visit [www.suncor.com](http://www.suncor.com)**

## ■ **Plenary Discussion**

During the plenary discussion, participants debated two questions:

- Can we measure / do we need to measure the value of reporting?; and
- Would a reporting portal provide increased value?

### **Measuring Value**

Don Wharton noted that the business case for SD reporting continues to be founded on anecdotal evidence. Perhaps as a result, socially responsible investing remains a niche in the Canadian investment community. In the UK, however, the financial community is a key audience, with the trend moving from “boutique” investment house interest to mainstream involvement, according to Rob Cameron. For example, Morley Investment Fund, which controls 3% of the UK market, recently instituted a policy to vote down companies that do not mention CSR in their annual reports. As such, the financial community is now driving reporting.

That said, Mallen Baker noted that the majority of companies involved in the IOS reporting portal are skeptical about a quantitative link to financial bottom line. Still, while there may not be a direct cause and effect linkage, sustainable development initiatives are increasingly being recognized as a proxy indicator for quality of management. Martin Holysh added that the investment community is beginning to look at financial indicators to see “where a company has

been,” and SD indicators to gain an appreciation of “what the company can do going forward.” Ron Nielsen of Alcan emphasized the need to position reporting within a continuum of corporate SD change. Reporting, he noted can be a stepping stone that can help integrate SD concepts within a company and provide a catalyst for internal change.

### Resistance Points

While the financial community may become a key driver to sustainable initiatives, Chris Pinney, of Imagine, reported that company representatives attending a recent Global Compact conference in the US cited liability risks from class action suits as a key resistance point.

Another, noted George Greene, is the high entry barrier for small- and medium-sized enterprises.

### Portal Advantage

A reporting portal may help overcome the latter because it can provide a framework to assist SMEs to get started at low cost by allowing stepped entry through a menu-driven system. Another potential advantage for SMEs is the establishment of a fixed set of core indicators to report against. Jumping in to GRI reporting can be both challenging and frustrating for SMEs as the indicators continue to develop.

Mallen Baker noted that in the UK, SMEs must meet financial and terminology thresholds in order to start reporting. One important driver, which Canada could emulate, is for large firms to drive down requirements for SD reporting their suppliers, that is, to make reporting the ‘price of entry’ to supply).

A portal may also provide a means of integrating industry-association led reporting, of making current reporting programs (e.g., greenhouse gas emissions) more public, and providing a facility for users to drill down into reporting data that is currently presented only in aggregated format. The portal would also provide an opportunity to aggregate information and tools that are currently scattered across a variety of locations. Key to providing real value, noted Blake Smith of Ford Canada, is to develop two-way communication channels that will drive consumer behaviour change (i.e., to provide a competitive advantage to the company that reports by building a reservoir of trust).

Representatives from the Environment Canada, Industry Canada and Natural Resources Canada emphasized their interest in partnering with business to develop a broader base of Canadian reporters.

### Key Messages

- Reporting must demonstrate value.
- A reporting portal may offer a means to increase the value of reporting by
  - Providing an opportunity for consolidation, comparability and increased visibility of current diverse reporting initiatives in Canada; and
  - Increase uptake by new reporters, including SMEs
- Partnerships among government, civil society, and business are essential for success.

## Learning Circle 2

### The Next Imperative: Engaging the Financial Community

#### AGENDA

*Welcoming Remarks:* David Wheeler, Schulich School of Business, and Martin Green, Industry Canada

*International Perspectives:* James E. Heard, Institutional Shareholder Services, Inc.; Tessa Hebb, Oxford University; Cindy Forde, Morley Investment Fund

*The Makings of a Winning Report:* Case study presentation of winning National Post/CICA report – Janet Rowley, Shell Canada Limited

*Setting the Scene: Current State, Future Trends:* Alan Willis, Alan Willis and Associates, Michael Jantzi, Michael Jantzi Research Associates; Michelle McCulloch and Dr. Martin Whittaker, Innovest Strategic Value Advisors

*Plenary Discussion, Wrap-up, Next Steps: Turning on the Financial Community: Content and Mode of Delivery* – David Wheeler, Chair

*Closing Remarks:* Roy Brooke, Environment Canada

#### PROCEEDINGS

##### ■ International Perspectives 1: James E. Heard, Institutional Shareholder Services, Inc.

To help frame the morning's discussion, James Heard provided a perspective on the evolution of socially responsible investing (SRI) in the US. James is CEO of Institutional Shareholder Services (ISS), which provides analysis and proxy voting recommendations to its 700+ clients (including institutional and mutual fund managers). Historically, he explained, SRI issues have been of interest only to church organizations and charities. The market has not wanted to spend time on "social" issues, which have been judged unimportant to shareholder value. Thus, ISS has focused on corporate governance and executive compensation issues and, until this year, has either abstained from or recommended in favour of management on proxies on SRI issues.

A shift is occurring, however. In the most recent US proxy season, ISS recommended on about 10% of SRI issues, picking issues and companies where its research suggested that supporting such proxies was important to shareholder value.

Some examples include:

- **EMC Corp.** – ISS recommended in favour of a proposal to accept women and minorities to its Board of Directors

- **Hudson's Bay Co.** – ISS recommended in favour of a shareholder resolution supporting International Labour Organization standards
- **Unocal** – (activities in Burma) – ISS recommended in favour of a shareholder resolution supporting ILO standards, and the resolution subsequently received more than 30% of vote
- **ExxonMobil** – Of seven SRI-type proposals on the proxy; ISS recommended for two: 1) renewable energy; and 2) sexual non-discrimination policy. Exxon filed a supplementary proxy to the Securities and Exchange Commission (SEC), which attempted to rebut the recommendation, however, both proposals received more than 20% of the vote (double the vote of last year).

ISS's mandate is to draw shareholders' attention to SD/SRI issues when there is a perceived economic value. Increasingly, James noted, proponents are framing issues using more rigorous economic analysis (for example, see the report *Risking Shareholder Value? ExxonMobil and Climate Change* at [www.ceres.org/reports/issue\\_reports.htm#exxon](http://www.ceres.org/reports/issue_reports.htm#exxon)). At the same time, he cautioned, a major educational and communication program is required because while some ISS clients are taking notice of SRI issues, others remain hesitant if not hostile. One future driver of increased investor interest, he concluded, may be a regulation by the SEC requiring fund companies to disclose their proxy voting.

For more information, visit [www.issproxy.org](http://www.issproxy.org)

## ■ International Perspectives 2: Tessa Hebb, Hebb, Knight & Associates

Tessa Hebb provided an overview of the increasing power of pension funds in shaping investment decisions in the US, UK and Canada. Control of firms is shifting from managers to owners, she said, with pension funds now valued at more than US\$9 trillion (and about half of all US financial assets are held by pension funds). Tessa outlined two reasons for fund manager interest in social and environmental impacts:

1. A fund manager's long-term investment perspective – a “65-year window” – from the time a worker begins his career (and contributions) through his retirement; and
2. The shift of pension fund assets into index funds in the 1990s. Investing in index funds means fund managers can no longer sell stock when they are unhappy with a firm's performance. The result? Fund managers “have to care” about how a firm performs.

Tessa explained that the general trend is for institutional investors to “engage” the corporations they hold in their portfolios in order to champion a longer-term decision-making perspective.

Specifically, she outlined a number of initiatives that are having an impact on pension fund investments:

- In the **UK**, SRI legislation now forces institutional investors to disclose the social, ethical and environmental criteria they use to evaluate a firm; a recent report by the Association of British Insurers calls for CSR reporting by firms; and the University Superannuation Plan (at £20 billion valuation) is using a firm's climate change policy to assess which companies to invest in

- In the **US**, the California Public Employees' Retirement System (CalPERS) has adopted the CERES (Coalition for Environmentally Responsible Economies) and Sullivan principles in their investment policies
- In **Canada**, the Ontario Municipal Employees Retirement System (OMERS) and Teachers pension plan have adopted proxy-voting guidelines, and recent changes to the Canadian Business Corporations Act pave the way for increased shareholder action in Canada.

■ **International Perspectives 3: Cindy Forde, Morley Investment Fund**

Cindy Forde described how Morley Fund Management is putting SRI into practice. Morley owns approximately 3% of the UK stock exchange and, as the asset management company for the AVIVA (formerly CGNU) Group, is backed by one of the largest institutions in the world.

In 2001, Morley launched a range of SRI funds and began engagement to improve the social and environmental impacts of all companies it holds. The SRI funds use SD as a way to protect shareholder value and identify positive social and environmental performance and sustained profit as combined goals. Morley aims to prevent risk to share price, to spot opportunities in a company's SD practices and help the company turn that into competitive advantage.

The Fund has developed a matrix (Figure 3), to rate companies according to their product and management vision and strategy. The vertical axis grades the business sustainability of a company's product, with an "A" given to companies where their core business is sustainability solutions and an "E" for companies where their core business is fundamentally in conflict with sustainable development. The horizontal axis grades management vision and strategy, with a "1" awarded to companies that are communicating a clear vision of sustainable development and are actively working to achieve it and a "5" to companies that are hostile to the concept of corporate social responsibility.

Figure 3: Morley Sustainability Matrix

<b>Product</b>	<b>A</b>	Vestas	AstraZeneca	Tanberg	Elekta	
	<b>B</b>	AT&T	CGNU	Vivendi	Telecom Italia	China Unicom
	<b>C</b>		Ericsson	Danske Bank	BSkyB	Cordiant
	<b>D</b>	Henkel	BP plc	BHP Billiton	TotalFinaElf	
	<b>E</b>			BAE Systems	Imperial Tobacco	Cape
			<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Management Vision and Practice</b>						

The matrix identifies companies suitable to hold in SRI fund and key areas of risk or opportunity for all companies in Morley funds. Morley engages with all companies it holds to improve their CSR performance and further influences their corporate policy through proxy voting. In 2002, for example, Morley started to vote against corporations that do not have environmental policies.

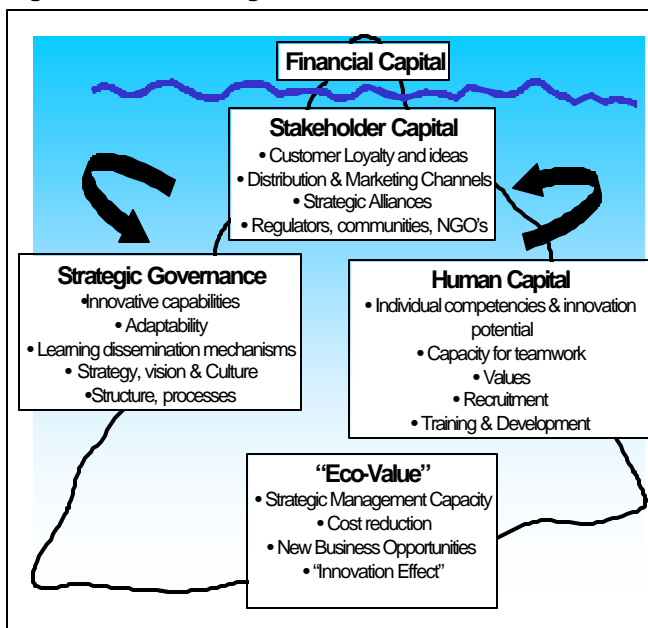
**For more information, visit [www.morleyfm.com](http://www.morleyfm.com)**

■ **Setting the Scene – Current State, Future Trends: Alan Willis, Alan Willis and Associates, Michael Jantzi, Michael Jantzi Research Associates; Michelle McCulloch and Dr. Martin Whittaker, Innovest Strategic Value Advisors**

A better understanding of the financial community is key to successfully engaging it, noted Alan Willis in his opening remarks to this session. Without an understanding of who the providers of capital are and how they make their decisions, reporters will not be able to determine what sustainability information they need for decision-making and how that information can be most reliably and efficiently provided. In addition, without an understanding of the dynamics between providers of capital, companies and securities regulators (e.g., Securities and Exchange Commission, Ontario Securities Commission) and an appreciation of corporate disclosure requirements and processes, it is difficult to choose the most effective carrots and sticks that will engage the capital markets.

According to Michael Jantzi, one vital area of information that is needed by the financial community and currently not included in most SD reports is corporate performance. The financial community needs to let companies know what performance information it needs. At the same time, Michael suggested that a regulatory framework requiring reporting is already in

Figure 4: The “Iceberg” Balance Sheet



place at the Toronto Stock Exchange. Michael noted that, “it is a cornerstone of the exchange... that investors have... equal access to information that may affect their investment decisions.” Thus, he argued, it is a matter of demonstrating to regulators that social and environmental factors are material to sound investment decisions.

Evidence of that materiality, suggested Michelle McCulloch, can be found in the growing importance of intangible assets, which now represent approximately 85% of market value. As Figure 4 illustrates, intangible assets include stakeholder capital, human capital, strategic governance and “eco-value”. Innovest is currently exploring indicators that can help it assess this intangible value.

## ■ **Reporting Case Study: Janet Rowley, Shell Canada**

Janet Rowley provided a case study on Shell Canada's reporting history. At Shell, SD provides a framework to integrate economic, environmental and social dimensions into everyday business decisions. A reputation based on SD, Janet noted, has the potential to generate competitive advantage by helping Shell attract and retain the best people, as well as suppliers, partners and investors. Reporting reflects the company's commitment to stakeholder engagement and public accountability, an element of transparency that is crucial to a genuine sustainable development commitment.

Shell Canada's annual SD report is a comprehensive report card, issued to tell stakeholders how the company is doing, its vision and challenges, goals and objectives, successes and failures, and plans for improvement. Janet noted two key challenges: 1) Ensuring balance, with failures receiving equal billing with successes; and 2) Addressing the question of auditing, which adds credibility and accountability but comes with a significant cost Shell audits a couple of its data measures, and is currently taking the approach that if it is honest, straightforward and transparent in what and how it reports, stakeholders will have reason to believe its data without the external validation component

### **Shell's 10 critical elements to an effective SD report:**

1. Careful planning, alignment with corporate goals and commitment
2. Clear explanation of company policies, objectives, and values when it comes to sustainable development
3. Indication of scope of company's operations and report
4. Demonstration of senior management commitment
5. Documented performance, not just intent and include data, measures and details.
6. Examples of stakeholder engagement, environmental stewardship, corporate social responsibility and economic success
7. Indication of trends and directions
8. Truthful and balanced reporting
9. Opportunity for feedback
10. Relevance to all stakeholders

Reflecting on Alan Willis's opening comments, Martin Whittaker noted that a key need is the ability to translate what we want to happen with respect to sustainability into language that the financial industry can understand, suggesting the need to develop a CSR dictionary. Martin also reviewed three recent Innovest initiatives.

1. *CERES "Value at Risk" Climate Change and Investment Risk*: This 2001 research report looks at how climate change is likely to affect key industry sectors, and concludes that corporate board members and pension fund trustees are leaving themselves open to attack for not meeting their fiduciary duty.

2. *UNEP: Climate Change and the Financial Services Industry* This report suggests that senior executives at major banks are not well informed on climate changes issues despite the strong possibility that the financial impacts of climate change may be significant (e.g., how will snowfall and therefore a ski resort's business activities be affected). A key challenge is that there is a temporal disconnect between the financial community, which looks at quarterly performance, and many SD issues, which are long term. Martin cited the example of Xstrata, a major coal supplier into European and Japanese markets. Prior to its listing on the London exchange in February 2002, no analysis was

done on how GHG emissions may affect the market demand for coal in light of Japan and the EU's Kyoto Accord ratification.

3. Carbon Disclosure Project (<http://cdproject.net/>): A consortium of 25 major pension funds (over \$5 trillion in assets) engaging the world's top industrial companies on the issue of climate change and investor risk. The consortium has sent a questionnaire to Fortune 500 companies, asking them to declare their initiatives on climate change.

For more information, visit [www.mjra-jsi.com](http://www.mjra-jsi.com) and [www.innovestgroup.com](http://www.innovestgroup.com)

#### Further Reading:

- *Financing Change – The Financial Community, Eco-efficiency and Sustainable Development*, World Business Council on Sustainable Development (1996)
- *Environmental Performance and Shareholder Value Creation 1999 Survey*, The Canadian Institute of Chartered Accountants, National Round Table on the Environment and the Economy (2000)
- "The New Green", *Investor Relations* magazine (June 2002)
- "Investors of the World, Unite!", *Fortune* (June 24, 2002)

### ■ Plenary Discussion

In Canada, noted Blair Feltmate of Jones Heward Investment Counsel Inc., demand for SRI is in an embryonic state. Most pension fund managers either are not familiar with SRI or believe that SRI investing is contradictory to their fiduciary responsibility and will lower returns. Education is key, noted Blair, because when the long-term benefits of SRI are explained, fund managers do "get it".

For education to be successful, noted James Heard, it is vitally important to speak the language of the financial markets. The Exxon case (including the work done by Innovest on Climate Change), he suggested, has set the stage by providing a representative example of quantifying issues in terms of shareholder value.

Education about fiduciary duty is also important. Michael Jantzi noted that analysts need to be updated on US litigation trends. In the US, class action suits against corporations are now extending to social issues, with social impacts increasingly being assessed as indicators of good governance. (A condition of settlement of a Bridgestone/Ford lawsuit, for example, required improving corporate governance and transparency.) In Canada, the Manitoba Trustee's Act allows trustees to take into account non-financial indicators – the first such reference in this country.

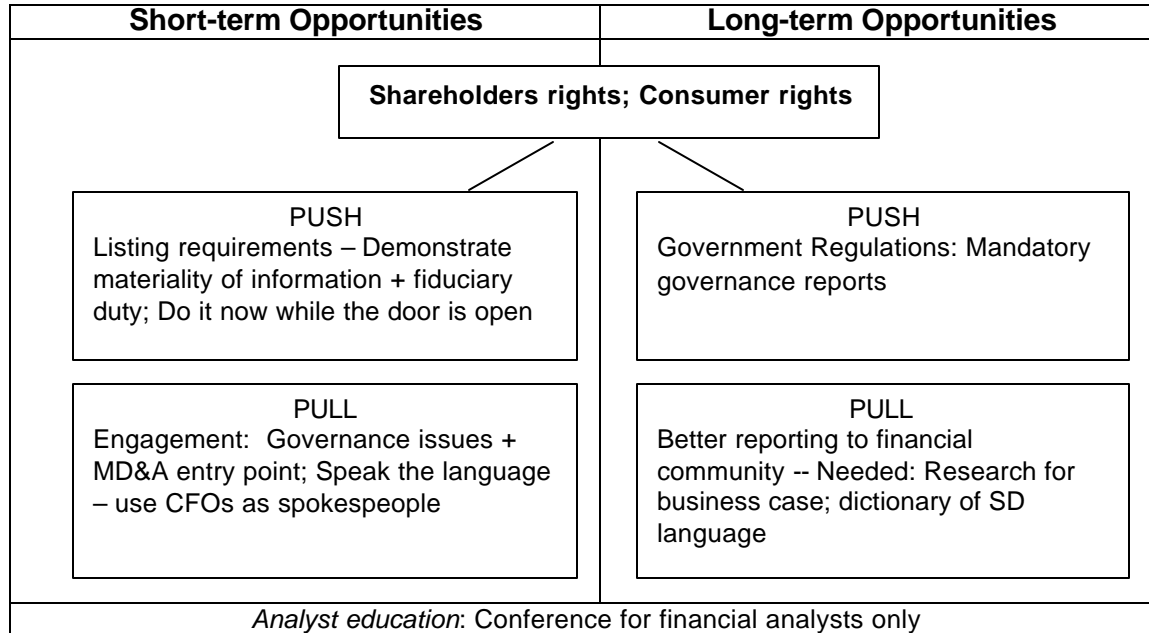
### The Opportunity

With the New York Stock Exchange undergoing a major reorganization of corporate reporting requirements, there is an opportunity to "hitch the SD message" to the post-Enron discussions. While those discussions are focusing on accountability issues, Martin Whittaker suggested that SD issues resonate well with the need for a strong, ethical board of directors. One practical point of entry, suggested Alan Willis, is to relate SD issues to ongoing discussions about revisions to the supplementary disclosure requirements in the Management Discussion and Analysis (MD&A) section of an annual report. Alan noted that prior to Enron, the SEC was not interested in expanding supplementary disclosure; but post-Enron, proponents are arguing that the MD&A should be a cornerstone of financial reporting.

## Summary

Figure 5 summarizes the short- and long-term, big-lever opportunities recommended by Learning Circle participants.

Figure 5: Short- and Long-term Opportunities



## Speakers

### LEARNING CIRCLE 1

#### David Wheeler

Director and Erivan K Haub Professor in Business and Sustainability at the Schulich School of Business, York University, Toronto; former director of Environment and Social Policy, The Body Shop International; author of *The Stakeholder Corporation* (Pitman, 1997).

#### Michael Keating

Founder and Executive Director, Sustainability Reporting Program; author of six books, including *The Earth Summit's Agenda for Change*, *A Plain Language Version of Agenda 21 and the Other Rio Agreements*; Senior Fellow, York Centre for Applied Sustainability, York University; formerly award-winning journalist for 23 years, including nine years as environment reporter for *The Globe and Mail*.

#### Jim Frehs

Acting Assistant Director, Sustainable Development and International Affairs, Natural Resources Canada; responsible for coordination of the Department's Sustainable Development Strategy, annual reporting on SD Strategy, reporting of performance measurement indicators, and development of an approach towards fostering corporate social responsibility in the natural resources sector; formerly Senior Policy Analyst with NRCan, Environmental Economist and Senior Economist with Environment Canada, and Resource Economist and Senior Policy Advisor with Parks Canada.

#### George Greene

President, Stratos Inc.; Leads Stratos' work on corporate sustainability and CSR; led team that completed benchmark *Stepping Forward* survey in; advisor to International Mining, Minerals and Sustainable Development (MMSD) Project over the last two years; currently working with the International Council on Mining and Metals on the initial concept of a mining industry sustainable development code of practice; and with the Forest Products Association of Canada on its sustainable forest management certification program.

#### Julie Pezzack

Environmental Management Consultant, Stratos Inc.; played key role in designing the evaluation methodology and conducting the *Stepping Forward* survey; lead on initiative to discuss corporate voluntary disclosure of sustainability information with industry association representatives and developing a communication tool for dissemination to association members on the business case for reporting.

#### Mallen Baker

Development Director for Business in the Community; led the creation of BITC's "Winning with Integrity" corporate responsibility reporting framework, and the test bed group of 20 companies, which is currently putting it into practice; editor of *Business Respect*, an independent fortnightly electronic newsletter on CSR, and the book reviews editor for the *New Academy Journal*.

### **Rob Cameron**

Chairman, Flag Communications, one of the UK's leading design and communication agencies; clients include a wide range of international companies and its work includes environmental and CSR reports, and internal communication programs to raise awareness and change practice; Flag is a SME participant in the Business in the Community Impact on Society reporting website.

### **Don Wharton**

Manager, Sustainable Development Department, TransAlta Corporation; chemical engineer working in the energy and environment field for over twenty years; responsible for integrating sustainable development tools and thinking into the company's business operations and for achieving value from them; involved in developing TransAlta's strategic approach to climate change, renewable energy and clean energy technologies, as well as continued improvement in SD Reporting.

### **Martin Holysh**

Corporate Manager, Sustainable Development, Suncor Energy Inc.; played key role in design, development and preparation of Suncor's 2001 and 1999 Sustainability Progress reports; formerly in Fort McMurray at Suncor's Oil Sands business holding various job functions in the Health, Safety and Environment departments; managed the Environmental Impact Assessment for Suncor's Project Millennium expansion; serves as the industry co-chair on the board of the Alberta Ecotrust Foundation, a partnership between environmental organizations and corporations that funds environmental community projects in Alberta.

### **John Mills**

Regional Director General, Environment Canada, Ontario Region; 30 years in the federal government of Canada; oversees delivery of all Environment Canada's programs including environmental conservation, protection and weather services; Canadian lead for the Great Lakes Program and the co-chair of the Water Quality Board of the International Joint Commission.

## **LEARNING CIRCLE 2**

### **Martin Green**

Director, Economic Framework Policies within Strategic Policy Branch, Industry Canada; responsible for the implementation of Department's second Sustainable Development Strategy; provides policy advice to senior officials and the Minister of Industry on a range of economic issues destined for consideration within the Department or by Cabinet/Cabinet Committees; leads Industry Canada's policy position development on key horizontal policy files within the federal government, including: eco-efficiency, skills and learning, rural, aboriginal and immigration.

### **James E. Heard**

Chief Executive Officer, Institutional Shareholder Services, Inc., based in Rockville, MD.; ISS advises more than 700 institutional investors on corporate governance and proxy voting issues; former CEO, The Proxy Monitor, Inc., which acquired ISS in July 2001; 20 years experience working with institutional investors on corporate governance issues; graduate: Harvard College and the George Washington University Law School.

### **Tessa Hebb**

Independent economic consultant and President of Hebb, Knight and Associates, providing analytic and strategic research and advice on issues of public policy with a concentration on the financial sector; recently Research Chair for the Heartland Labor-Capital Project, a three-year project funded by the Ford and Rockefeller Foundations; co-editor and contributor to the volume, *Working Capital: The Power of Labor's Pensions* (Cornell University Press, 2001); visiting scholar at Carleton University; doctoral candidate at Oxford University, where she is researching the long-term impacts of corporate engagement by institutional investors.

### **Cindy Forde**

Communication consultant for the Morley Fund Management Socially Responsible Investment (SRI) team; specialist in corporate social responsibility and supports the Business Development, Marketing and Public Relations strategies for SRI at Morley, as well as assisting the company in developing its own CSR policy and practice; formerly consultant for corporate social responsibility for the past five years building on an eight-year career in corporate communications in Europe and South East Asia.

### **Janet Rowley**

Manager, Public Affairs, Shell Canada since 1995; joined Shell in 1975 in the Industry and Government Affairs department within the exploration and production division in Calgary; since worked with all parts of the business: exploration and production, refining and marketing, and the corporate departments.

### **Alan Willis**

Independent consultant in performance measurement and reporting, particularly as it relates to sustainability, corporate governance and accountability; represented Canadian Institute of Chartered Accountants (CICA) on Steering Committee of the Global Reporting Initiative (GRI), and chairs the GRI Working Group on Verification; chairs advisory panel for CICA's research study with York University and Simon Fraser University, "Measuring The Business Value of Stakeholder Relationships"; associated with Stratos in the *Stepping Forward* report; co-authored 1999 final report on the feasibility of a core set of eco-efficiency indicators for business for Canada's National Round Table on the Environment and the Economy; lead on research and development of CICA's 2001 publication "Environmental Performance – Measuring and Managing What Matters", on the relationship between environmental performance and shareholder value creation; currently leading CICA's business reporting project to produce guidance on enhancing the usefulness of Management's Discussion and Analysis disclosures.

### **Michael C. Jantzi**

President, Michael Jantzi Research Associates Inc.; active in social investment field for about 12 years; founded Michael Jantzi Research Associates November 1992; developed Canadian Social Investment Database™, the country's first database that tracks the social, labour, and environmental performance of Canadian corporations; MJRA works with investment managers,

mutual funds, pension fund trustees, foundations, religious orders, and other organizations, helping them define investment policies and proxy voting guidelines that incorporate social and environmental criteria; January 2000, MJRA launched the Jantzi Social Index®, a market capitalization-weighted common stock index consisting of 60 Canadian companies that pass a set of broadly-based social and environmental screens; co-author of *The 50 Best Ethical Stocks for Canadians: High Value Investing* (MacMillan Canada).

### **Martin Whittaker**

Managing Director, Innovest Strategic Value Advisors, Inc., specializing in the energy and resource sectors; research serves as critical input into Innovest's equities research, product development and consulting activities; spearheads Innovest's work in climate change matters, designed to assist the financial community in understanding the investment risks and opportunities surrounding climate change; former consultant with Golder Associates and has worked in the oil and gas industry with Elf Aquitaine, the French multinational.

## **Participants**

### **LEARNING CIRCLE 1**

Mary Amati, Schulich School of Business  
Mallen Baker, Business in the Community  
Gail Bebee, Canadian Tire Corporation Ltd.  
John Besley, Environment Canada  
Kate Bewley, York University  
Roy Brooke, Environment Canada  
Michelle Brown, Imagine  
Rob Cameron, Flag Communications Ltd  
Rhonda Carlin, DuPont Canada Inc.  
Dennis Durrant, The AMD Consultancy  
Jim Frehs, Natural Resources Canada  
Richard Gareau, DuPont Canada Inc.  
Chris Gates, Enbridge Consumers Gas  
Diane Girard, McGill University/KPMG  
George Greene, Stratos Inc  
Ian Hamilton, Dofasco Inc.  
Martin Holysh, Suncor Energy  
Celesa Horvath, EnCana Corporation  
Brent Johnston, Industry Canada  
Michael Keating, Sustainability Reporting Program  
Myrna Khan, Canadian Business for Social  
Responsibility  
Susan McGeachie, Innovest Strategic Value  
Advisors

Adine Mees, Canadian Business for Social  
Responsibility  
John Mills, Environment Canada  
Andrea Moffat, Environment Canada  
Ron Nielsen, Alcan Inc.  
Katharine Partridge, Katharine Partridge &  
Associates  
Mike Perkin  
Chris Pinney, Imagine, Canadian Centre for  
Philanthropy  
Katharine Preston, Innovest Strategic Value  
Advisors  
Helen Ryan, Environment Canada  
Janine Small, Health Canada  
Blake Smith, Ford Canada  
Valerie Snow, Canadian Electricity Association  
Christopher Snyder, Schulich School of Business,  
York University  
Pasleem Thawar, York University  
Don Wharton, TransAlta Corporation  
David Wheeler, Schulich School of Business, York  
University  
Alan Willis, Alan Willis & Associates

### **LEARNING CIRCLE 2**

Gail Bebee, Canadian Tire Corporation Ltd.  
Kate Bewley, York University  
Roy Brooke, Environment Canada  
Michelle Brown, Imagine

Diana Cartwright, The EXCEL Partnership  
Peter Chapman, Stakeholder Association for  
Research and Education (SHARE)

Steven Cross, Canadian Business for Social Responsibility  
Paul Dormer, TransCanada Pipelines  
Pascale Dugre-Sasseville, Department of Finance  
Eugene Ellmen, Social Investment Organization  
Blair Feltmate, Jones Heward Investment Counsel Inc., Bank of Montreal  
Cindy Forde, Morley Investment Fund  
Jim Frehs, Natural Resources Canada  
Paul Godman, EnCana Corporation  
Martin Green, Industry Canada  
Kerri-Lynn Hauck, ParkerVenture  
James E. Heard, Institutional Shareholder Services, Inc.  
Tessa Hebb, Hebb, Knight and Associates  
Michael Jantzi, Michael Jantzi Research Associates  
Brent Johnston, Industry Canada  
Brian Kelly, Schulich School of Business, York University  
Michelle McCulloch, Innovest Strategic Value Advisors  
Susan McGeachie, Innovest Strategic Value Advisors  
Andrea Moffat, Environment Canada  
Rajiv Nariani, York University

Ron Nielsen, Alcan Inc.  
Katharine Partridge, Katharine Partridge & Associates  
Julie Pezzack, Stratos Inc  
Chris Pinney, Imagine, Canadian Centre for Philanthropy  
Katharine Preston, Innovest Strategic Value Advisors  
Janet Rowley, Shell Canada Limited  
Kathy Russel, State Street Trust Company  
Helen Ryan, Environment Canada  
Elle Sharma, Schulich School of Business, York University  
Ian Shaw, Dofasco Inc.  
Christopher Snyder, Schulich School of Business, York University  
Nancy Sutherland, Schulich School of Business, York University  
Nigel Taylor, Enbridge Consumers Gas  
David Wheeler, Schulich School of Business, York University  
Martin Whittaker, Innovest Strategic Value Advisors  
Alan Willis, Alan Willis & Associates  
Ronald Yachnin, The Conference Board of Canada

## About the Organizers

The Sustainable Enterprise Academy (SEA), founded by the Erivan K. Haub Program in Business and Sustainability at the Schulich School of Business, York University, is North America's premier executive program on sustainable development. The Academy offers Business Leader Seminars on a semi-annual basis, and organizes professional courses and other events to complement its Business Leaders Seminars. More information can be found at [www.SustainableEnterpriseAcademy.org](http://www.SustainableEnterpriseAcademy.org).

The Sustainability Reporting Program (SRP) is Canada's centre of communications on sustainability issues and trends that are shaping our future. An independent, non-partisan organization, the SRP draws from the best available sources of information on sustainability. It is a centre of expertise on environmental and sustainability reporting. SRP is affiliated with the York Centre for Applied Sustainability at York University. More information can be found at [www.sustreport.org](http://www.sustreport.org).

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## For More Information

### Sustainable Enterprise Academy

Brian Kelly, Director  
Schulich School of Business, Room 200F, York University  
4700 Keele Street, Toronto, Ontario M3J 1P3  
Phone: 416 736 5268 Fax: 416 736 5195  
Email: [sea@schulich.yorku.ca](mailto:sea@schulich.yorku.ca)  
Web: [www.SustainableEnterpriseAcademy.org](http://www.SustainableEnterpriseAcademy.org)

### Sustainability Reporting Program

Michael Keating, Executive Director  
10 Astor Avenue, Toronto, Ontario M4G 3M2  
Phone: 416 425 0005 Fax: 416 425 0019  
Email: [mkeating@sustreport.org](mailto:mkeating@sustreport.org)  
Web: [www.sustreport.org](http://www.sustreport.org)

### Katharine Partridge & Associates

Katharine Partridge, Principal  
355 Division Street, Cobourg, Ontario K9A 3R5  
Phone: 905 377 1144 Fax: 905 377 1143  
Email: [katharine.partridge@sympatico.ca](mailto:katharine.partridge@sympatico.ca)