

Sustainability Performance

What is it, why is it important and how to manage it?

Executive Summary

The traditional way of measuring value and business performance of a company is changing. For an increasing number of stakeholders, financial statements and balance sheet information just isn't enough. Emphasis is now on sustainability, especially related to reputational risk and corporate image. A sustainability incident, like discovering child labor in the global supply chain, can be extremely harmful to brand value and thus revenue and profits.

Integration of Sustainability

96% of the CEOs interviewed in the recent Accenture - Global compact study* stated; "Sustainability issues should be fully integrated into the strategy and operations of a company. Sustainability risks should be managed as part of daily business operations, not only as a separate sustainability initiative"

**A New Era of Sustainability – UN Global Compact-Accenture CEO Study 2010*

Regardless of how large or how profitable today's businesses are, they do not stand alone in society. Every decision a business makes affects the surrounding community and stakeholders. Sustainability has become a very sensitive issue for the public. Sustainability incidents such as discovering inhuman work conditions in global operations; unsustainable farming of raw materials or high carbon emissions can significantly harm corporate brand image and value. No CEO wants to find out that a newly selected vendor somewhere in the global supply chain is accused of destroying local living conditions with excessive emissions.

To manage sustainability in global operations is a complicated task. This type of new data from all over the organization and production chain is difficult to gather. Creating a process to actually control sustainability issues and related risks is challenging and a separate sustainability management process can become very tiresome. Based on customer experiences we conclude that integrating the handling of sustainability risks and related issues into daily operations following a risk management approach simplifies and helps organizations to get and stay in control of sustainability issues. Incorporating sustainability into the daily operations helps companies to manage and embed it into organization's practices in a standardized way, communicating the same message everywhere and diminish the risks of these incidents.

An increasing number of organizations have turned it around; they see sustainability as a competitive advantage. The benefits of being a sustainable organization include; finding new business opportunities through sustainable product innovations, enhanced brand value, better risk management, the ability to attract capital from green investors and the opportunity to attract better staff by offering a great place to work. Besides all sustainable and long-term arguments, the best argument to invest in sustainability is the direct opportunity to significantly reduce operating cost.

Sustainability in terms

Sustainability in business can be described with several different terms. These include business ethics, corporate responsibility, corporate citizenship and "being green". These are often used interchangeably. In this paper we refer "sustainability" as the umbrella term including all other terms describing sustainability issues.

As previously stated sustainability issues are important risk issues that can affect corporate image, brand value and thus revenues and profits. In this whitepaper we will outline how to operationalize sustainability and how to incorporate it into daily operations. We advise an integrated approach being the most simple, efficient and effective way to embed and manage sustainability in a global organization. In doing so it enables improvements of sustainability performance and cost savings by using companywide internal data as benchmark information.

Sustainability

A new complex risk area

The risk to brand and reputation is increasingly important in today's world. Different stakeholders require different types of information from the increasingly complex global operation. Data on greenhouse gas emissions, products end-of-life treatment, sustainable supply chain practices or social and community programs are the type of sustainability issues that should be communicated in a meaningful and reliable way to these different stakeholder groups. Providing this new and different type of information to a larger and more diverse group of stakeholders both globally and locally is a difficult and time consuming task for an organization.

Sustainability data gathering throughout the entire organization can be very tricky. Localized and meaningful reporting to all relevant stakeholders is even trickier. If a sustainability risk materializes, the question becomes how to act, monitor and communicate in a way that the message is accepted by stakeholders, becomes critical (figure 1).

Corporate headquarters is responsible for creating a strategy to manage the communication of the different global and local sustainability expectations to all stakeholder groups. For example, non-governmental organizations and action groups require information on environmental and social responsibility issues. Employees want to work for a company that is considered a good corporate citizen. Shareholders demand that the company makes a profit, but are increasingly aware that long term success cannot be achieved without being sustainable in all business operations.

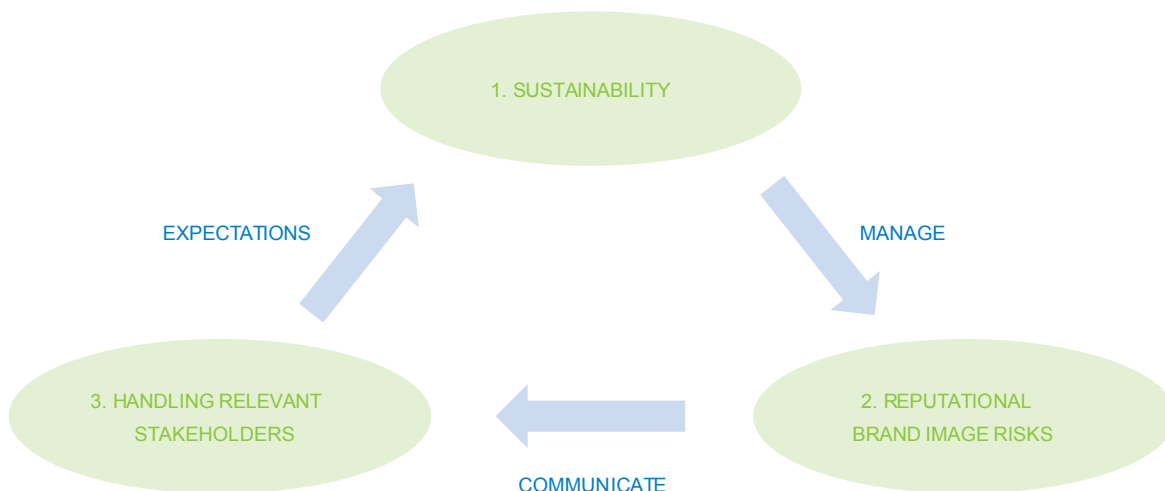


Figure 1: Sustainability, how to act, monitor and communicate

Sustainability

Everywhere, all the time

Organizations also need to be aware that different stakeholders can have very different expectations. Issues like water usage, or acceptable work conditions can have very different meanings in different parts of the world. Communicating and responding to these different sustainability requirements is a sensitive issue. In this time of the expanding use of social media, bad news spreads faster than ever and global organizations need to manage their sustainability everywhere and all the time.

However, sustainability is also a competitive advantage. Being seen as a sustainable company has positive effect on reputation. To become a member of the sustainability indexes (like the Dow Jones Sustainability Index²), or being recognized as one of the top 100 most sustainable companies in the world³ will boost corporate reputation, image and brand value. Sustainable companies attract talented workers and the sustainability practices can be used as key differentiators in the marketplace. Sustainability should not be seen as a negative risk issue only, but also as a tool for enhancing competitive advantage.

Managing sustainability is a complex task

Traditionally, sustainability issues are mainly managed in separate processes by an environmental or sustainability department. In many cases, a separate process for sustainability data collection, analysis and reporting has been created and separate sustainability reports have been published. However, if sustainability issues are managed using a separate process, there is a justified risk of mixed or inadequate communication. A separate sustainability process may not support an organization's board level decision making processes.

BWise believes that having a separate sustainability process is not enough anymore. The Global Reporting Initiative⁴ (The GRI) provides useful guidelines on how to start and manage sustainability issues in a complex organization. Based on our experience with the GRI and working with global companies, leaders in their respective industries such as; heavy manufacturing, retail and financial services, we believe that integrating sustainability performance management into an organization's daily risk management processes is the best way to get a grip on sustainability issues and manage this complex area of corporate performance.

The most successful companies have embedded sustainability into their organizational strategy, core values and processes (figure 2). In these organizations, sustainability is not seen as a separate initiative managed only by the sustainability departments, but rather embedded into corporate strategy and daily operations. Successful companies are able to communicate on their sustainability performance in a meaningful and reliable way to their stakeholders. This communication includes the improvement they have made but also the challenges they face. Successful organizations have meaningful sustainability metrics in place, they can monitor their sustainability performance, like greenhouse gas emissions or supply chain practices, and communicate this information to different stakeholders effectively and efficiently.

2 www.sustainability-index.com/

3 www.global100.org/

4 www.globalreporting.org

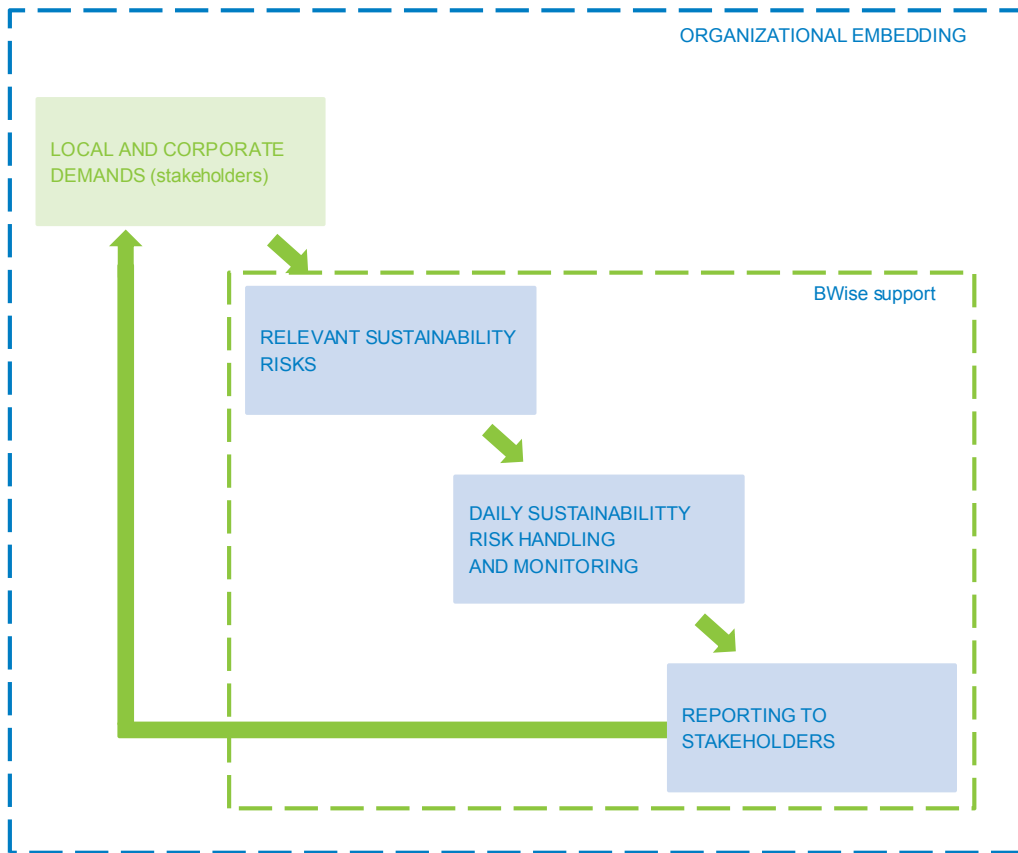


Figure 2: Sustainability embedded into an organization

Sustainability topics

Embedded and supported by BWise

To manage sustainability issues within today's complex business environment requires a well-defined and solid sustainability strategy, a clear process structure, sufficient tools and a transparent communications policy. To respond to different stakeholders sustainability expectations on both a corporate and local level requires trustworthy, reliable data. When an organization has a systematic and transparent data collection process in place with auditable controls, and reporting capabilities relevant sustainability risks and opportunities can be recognized and acted upon.

With systematic sustainability performance management process incorporated into daily operations, organizations can derive strategic advantage by disclosing the details of their sustainability efforts and performance to different stakeholders. The benefits include enhanced brand value, better risk management and the ability to differentiate in the marketplace.

In this context the reporting consists, for an increasing number of companies, of three main components:

- Financial (performance) reporting;
- Risk reporting;
- Sustainability reporting.

Obviously, the three components are closely intertwined: sustainability issues lead to risk issues, which often lead to performance issues. In that sense, both risk reporting and sustainability reporting can be seen as early indicators for future performance. Modern reporting requires looking ahead, which is why sustainability and risks need to be an integral part of any reporting to the board.

BWise has created a sustainability performance management module (SPM) to support organizations as they monitor, manage and communicate their sustainability performance and incorporate it into their daily operation based on their risk management methodology. SPM is an integrated, ready-made, best practice solution of the BWise Governance, Risk Management and Compliance framework. This single framework already enables an organization to integrate reporting on sustainability and risk issues. Just adding the finances to it completes the dashboard at board level and so enables an organization to stay in control of their total performance.

About BWise

BWise, a NASDAQ OMX company, is the global leader in Enterprise Governance, Risk Management and Compliance (GRC) software. Based on a strong heritage in business process management, BWise delivers a truly integrated and proven GRC platform.

With this platform, BWise supports an organization's ability to track, measure, and manage key organizational risks in one integrated system. By doing so, BWise helps customers to truly be in control by sustainably balancing their performance and financial and reputational risks. BWise enables customers to increase corporate accountability; strengthen financial, strategic and operational efficiencies, maximize performance, and better understand risks. Using BWise, organizations are able to comply with regulations such as Sarbanes-Oxley, ISAE3402/SAS-70, PCI, Solvency II, Basel II and III, Dodd-Frank, ISO-standards, European Corporate Governance Codes and many more.

BWise provides for the GRC needs of hundreds of customers worldwide, across all industries. Customers include adidas, AEGON, Ahold, AngloGold Ashanti, Connexion, Health Alliance Plan (HAP) of Michigan, LeapFrog, Liebherr, Marathon Oil, Southern Company, Swiss Life, and Transcontinental. BWise has offices in the Netherlands, United States, Germany, France and the United Kingdom. For more information, visit www.bwise.com.

BWise® GRC Platform

BWise offers multiple role-based software solutions for Risk Management, Internal Control, Internal Audit, Compliance & Policy Management, IT GRC and Sustainability Performance Management. Each solution derived from the BWise integrated Governance, Risk management, and Compliance Platform supports the end-to-end process of a given role.

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