TRANSPARENCY:

A Path to Public Trust

GLOBAL ENVIRONMENTAL MANAGEMENT INITIATIVE

GEMI®

About the Global Environmental Management Initiative

The Global Environmental Management Initiative (GEMI) is a nonprofit organization of leading companies dedicated to fostering environmental, health, and safety excellence and corporate citizenship worldwide. Through the collaborative efforts of its members, GEMI also promotes a worldwide business ethic for environmental, health and safety management, and sustainable development through example and leadership.

The guidance included in this document is based on the professional judgment of the individual collaborators listed in the acknowledgements. The ideas in this document are those of the individual collaborators and not necessarily their organizations. Neither GEMI nor its consultants are responsible for any form of damage that may result from the application of the guidance contained in this document.

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Preface

September 2004

Corporate transparency has emerged as a focal point of societal expectations. Increasingly, corporations are experiencing pressures from stakeholders to be more transparent about their values, commitments, and performance. In this "show me" world, stakeholders want to know who the company is, what it stands for, where it is going, and whether it is living up to its commitments to society. Companies have learned — at times the hard way — that increasingly their license to operate depends on having the public's trust. By understanding stakeholders' expectations for transparency and knowing how to respond effectively to them, companies may be better positioned to reduce risks, enhance their reputation, and increase shareholder value.

Transparency: A Path to Public Trust is the result of a collaborative journey by members of GEMI and others. It began with a series of three GEMI-sponsored workshops held between October 2001 and February 2003 (www.gemi.org). During these workshops participants from nineteen separate nongovernmental organizations (NGOs) and sixteen companies worked together to explore the concept of corporate transparency. The dialogue and debate led to the recognition that there was both a need and an opportunity to help organizations approach transparency using a strategic, systematic process. This tool has been created in recognition of that need.

Properly implemented, transparency may drive improvements in corporate governance, stakeholder relations, and performance reporting, all of which can deliver business value by enhancing the credibility and trustworthiness of an organization. Defining a strategic approach and establishing clear goals for transparency can help ensure that this value is delivered at the same time as associated risks are managed.

Transparency: A Path to Public Trust is a tool that can be used to help develop an appropriate approach to transparency for your organization. It consists of a six-step process designed to assist you with identifying transparency-related opportunities and risks, determining the business case for action, and engaging your organization in developing and implementing an effective transparency strategy. Further guidance is provided to help you understand how to employ the key elements of corporate transparency – corporate governance, stakeholder relations, and performance reporting. Case studies demonstrate how several GEMI companies have addressed transparency in their organizations and share the lessons they have learned. Sections on challenges, trends, tools, and references provide additional information and context.

Transparency is, indeed, a path to public trust. May this tool help guide you as you advance along the path. GEMI welcomes your feedback regarding this tool. Please send your comments to info@gemi.org.

Southern Company — The Procter & Gamble Company

Co-chairs, GEMI Transparency Work Group

Case Studies

Tools

Foreword

There is a growing demand from an array of audiences for companies to commit to and demonstrate sound environmental practices. These audiences include environmental groups, current and prospective shareholders, business partners, end-use consumers, lending institutions, insurance companies, regulators, local communities, and the general public. Although these external parties have expectations for credible and meaningful information on companies' environmental performance, concern is mounting among some observers that the demand for and quantity of environmental information is increasing at a time when quality is becoming increasingly suspect. Content and reporting format inconsistencies and the tendency to prefer "flash" over content may undermine the value and meaning of company environmental reporting to the public, as well as jeopardize its future usefulness in public policy.

On October 24, 2001, the Pacific Institute for Studies in Development, Environment and Security and GEMI hosted a one-day roundtable workshop entitled "Defining Transparency: Expectations and Obstacles." The purpose of the workshop was to better understand whether GEMI members and participating nongovernmental organizations (NGOs) could agree on the meaning of "corporate transparency" and, if so, how best to achieve it. The discussion was informal, providing an opportunity for both stakeholder groups to learn from each other and share ideas on how businesses can improve on the effectiveness and credibility of their environmental performance.

What was striking about the discussions was the level of agreement on a range of issues. What was important about the meeting was the level of trust established during a relatively brief encounter among individuals who often find themselves on opposite sides of issues. The participants generally agreed that information has the power to differentiate as well as to provide recognition for leaders and to embarrass laggards. Questions centered on how best to develop a system that will provide winning solutions for both parties.

With the success of the first workshop, a second and third workshop were conducted that included more than 30 representatives from NGOs and more than 30 representatives from GEMI companies. The collective thought was the genesis of this transparency tool.

We hope you find this tool useful.

Jason Morrison
Pacific Institute

PACIFIC INSTITUTE

For more information about the Pacific Institute ,
please visit: www.pacinst.org

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Executive Summary

Defining Transparency

GEMI has developed the following definition of corporate transparency:

> *Transparency is the openness of an organization with regard to sharing information about how it operates. Transparency is enhanced by using a process of two-way, responsive dialogue.*

Building the Business Case for Transparency

In recent years a number of factors have created widespread awareness of and sensitivity to the social and environmental impacts of corporate activities. This awareness has led to increasing societal demands for business to be more responsible, accountable, and transparent. Greater corporate openness is now being recognized as fundamental to an organization's license to operate. In addition, an appropriate approach to corporate transparency can impact business value in the following ways:

- Contribute to the trustworthiness and credibility of an organization
- Increase effectiveness by improving the organization's understanding of the potential environmental and social implications of its business activities
- Improve corporate performance by motivating an organization to meet its declared goals

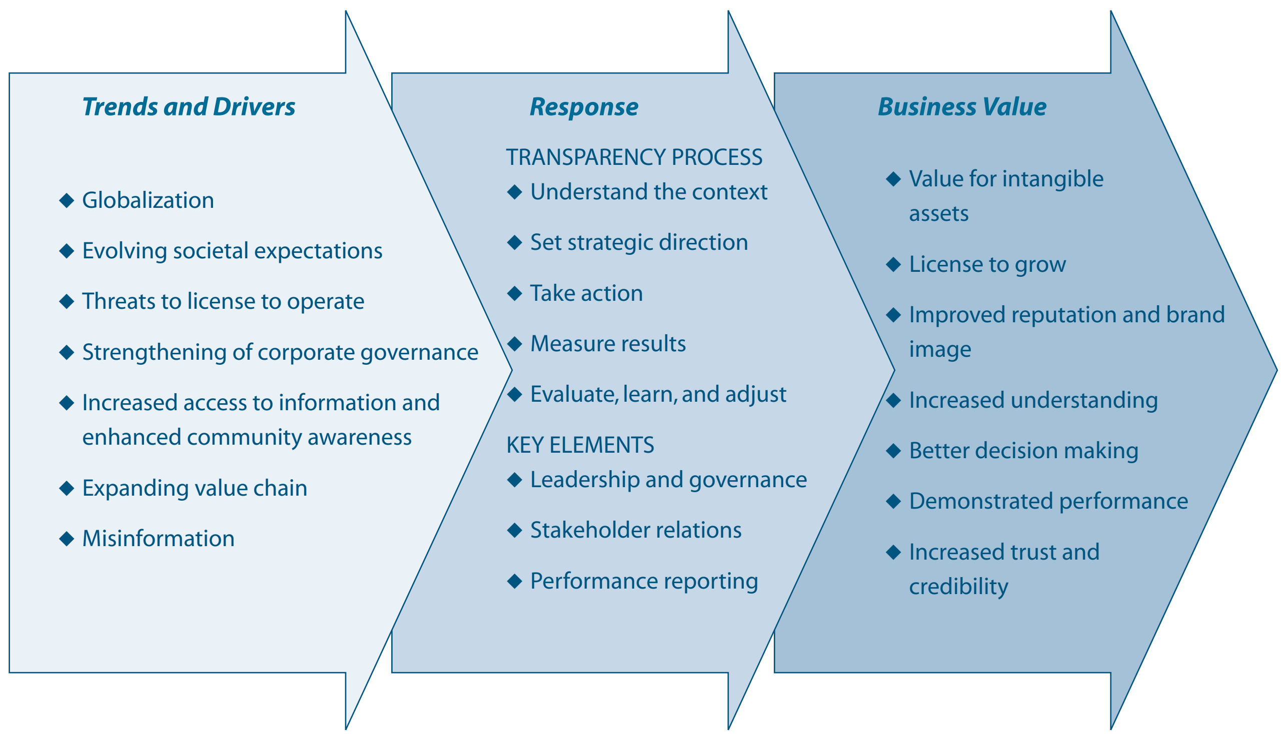
Transparency by Design

An organization's approach to transparency should be designed to fit its unique circumstances. Engaging in a strategic planning process is an effective way to decide on the most appropriate approach.

The transparency process

The fundamental management system process of **Plan-Do-Check-Advance** serves as an effective framework for developing a strategic approach to transparency. These steps outline a useful structure for identifying related business opportunities and risks, determining the business case for action, developing an appropriate

Figure 1: Corporate Transparency: The Big Picture



strategy, taking action, and measuring and evaluating the results.

The key elements of transparency

Leadership and governance, stakeholder relations, and performance reporting have been identified as the three key elements of transparency and are given special consideration throughout this document.

- *Leadership and governance* – It is through leadership and governance that the corporate commitment to transparency is defined and communicated throughout the organization. Leadership establishes expectations and accountability whereas good governance ensures that the commitment is implemented.
- *Stakeholder relations* – Whereas stakeholder demands are a driver for increased transparency, stakeholder relations are a means to becoming transparent. Transparency provides stakeholders with the information they need, which in turn should improve the relationship.
- *Performance reporting* – Elevated stakeholder expectations for transparency are driving companies to adopt beyond-compliance reporting of nonfinancial performance. Reporting provides a window into the organization and a means to disclose corporate commitments and performance. It can also be a cost-effective method for regularly delivering information to stakeholders in a consistent manner.

Looking Ahead: Challenges and Trends

All indications are that the demand for greater corporate transparency is here to stay. What remains unclear is to what extent transparency will remain voluntary. Organizations that choose to develop a transparency strategy will have to do so in the face of this uncertainty. Striking the right balance will require developing a clear strategic intent. Challenges include:

- Balancing the right-to-know with the need for security
- Attaining the proper trade-off of cost vs. benefit
- Understanding how to provide meaningful information rather than simply more data

Transparency: A Path to Public Trust is a tool to help navigate these challenges and trends.

Chapter 1 — Understanding Transparency

A Definition

GEMI has developed the following definition of corporate transparency:

> *Transparency is the openness of an organization with regard to sharing information about how it operates. Transparency is enhanced by using a process of two-way, responsive dialogue.*

This document describes the process by which information about how an organization operates and performs is delivered to stakeholders. The degree of openness of an organization will be a function of its underlying corporate culture, as well as the level of trust that exists between it and its stakeholders. Actions that contribute to sharing (or withholding) information occur throughout an organization. As an organization works to define its own parameters with regard to transparency, both its culture and the activities it supports will come into play.

An Analogy

If we think of the organization as a structure, transparency can be thought of as the windows and doors that allow "information" to pass both from the inside out and the outside in. When constructing a building, the windows and doors need to be strategically placed to ensure that both the practical and aesthetic values of the building project are being met. This analogy provides a useful way of thinking about corporate transparency.

Workshop perspectives*

Some workshop participants suggested the following purposes for transparency:

- To enable informed decisions by internal and external stakeholders
- To empower stakeholder to influence decisions that will affect their lives
- To share critical information with customers
- To fulfill the public's right-to-know and understand
- To aid understanding of internal data processes, benchmarks, etc.
- To allow for consumer education and informed choice
- To allow for assessment of performance

*Perspectives here and throughout the document were derived from the three GEMI Transparency Workshops conducted in 2001–2003. See Foreword for more details.

Historically, corporate activities were considered part of a private domain, and corporations operated within solid walls that prevented scrutiny. However, changing stakeholder expectations and increasing regulation continue to create openings in many of these walls. Rather than reacting to new demands for information without planning, some organizations have taken a proactive approach and incorporated transparency by design. The idea of incorporating transparency, like the placement of windows and doors, requires careful thought.

Consider, for example, several factors that might affect the placement of doors and windows:

- Windows frame a view. Window placement will therefore be influenced by what one wants to see when looking out.
- Requirements imposed by regulators will affect how and where windows and doors can be placed.
- Doors and windows let in air and light and may allow those outside to look in. Careful consideration needs to be given to the activities that occur where windows bring in light and provide a public view.

The "windows" that represent transparency may include any or all of the following:

- Public reporting of information related to organizational performance such as Environmental, Health, and Safety (EHS), shareholder and sustainability or citizenship reports
- A public web site
- Participation in conferences and tradeshows
- Information reported to the media
- Public meetings
- Facility open houses
- Educational initiatives
- Participation in community activities or events
- Information reported to regulatory agencies
- Annual meetings of shareholders
- Information reported to socially responsible investors
- Information made publicly available with regard to specific projects and business initiatives
- Information on product performance provided to consumers
- Information shared with suppliers as a result of supply-chain initiatives
- The engagement of advisory panels consisting of external stakeholders to provide input on issues related to policy and strategy

- The surrounding community often has strong opinions about the design of structures built in their midst, including the form and placement of windows and doors.
- How and where windows and doors are placed will significantly affect construction costs.
- Since window and door placement impacts a structure's occupants and their activities, design decisions should incorporate a clear understanding of how occupants plan to use the space, as well as the underlying values that guide their activities.
- Finally, attempting to construct a building entirely of glass may impact its strength and integrity, as well as create privacy issues; some of the activities that take place inside buildings may not be appropriate for scrutiny.

Although organizations are not buildings, the building analogy is useful for illustrating some of the issues that come into play when considering an approach to transparency. In effect, transparency may be an important goal for an organization, but there are significant implications that may often provide the incentive for taking a strategic approach. GEMI has developed this document to inform and support this effort.

The Business Case for Transparency

In recent years a number of factors have created widespread awareness of and sensitivity to the social and environmental impacts of corporate activities. This increased awareness has begun to change public expectations about the role and responsibility of corporations within society. Because the legitimacy of the contemporary corporation as an institution within society — its social charter or "license to operate" — depends on its ability to meet societal expectations, an appropriate response to these changes is needed.

Workshop perspectives

Workshop participants agreed that transparency is fundamentally about empowerment and trust. They concluded: "When external stakeholders are empowered to make informed choices, corporate behavior is influenced. Through transparency, consumers and communities are empowered and, in return, the company builds trust, enabling it to manage its affairs more effectively and efficiently."

Over the past decade, corporate transparency has emerged as one of the focal points of shifting public expectations. Stakeholder demands for transparency have broadened beyond the financial arena to include requests for information that allow evaluation of an organization's social and environmental performance. Because transparency provides the means for stakeholders to evaluate corporate performance, greater openness is seen by many as fundamental to an organization's license to operate. In addition, an organization's approach to corporate transparency can preserve, enhance, and even create business value.

Creating and Enhancing Business Value Through Transparency

Organizations that exhibit openness and engage with stakeholders can add business value in many of the following ways:

By increasing trust and credibility — Trust and credibility with key stakeholders are critical to a corporation's ability to thrive. Trust and credibility are earned by disclosing quality information, delivering on commitments, and being consistently accountable for one's actions.

> *"We know that transparency is a key ingredient for establishing trust. That's why we've tracked our environmental progress and reported these results publicly for more than 10 years."*
>
> — *Georgia-Pacific Corporation "2003 Corporate Social Responsibility Report"*

What is driving transparency?

A number of recent developments have helped drive the business response to calls for increased transparency. Among the most prevalent are:

- **The power of the Internet** — In this interconnected world, there is no place to hide. The Internet can be used to cast an instantaneous spotlight on the activities of a company anywhere, anytime, and at unprecedented levels of detail. Risks to reputation are more pronounced in this world of rapid communications where misinformation can spread like wildfire. The Internet is also being used increasingly as a tool to influence corporations through market actions and other means. Transparency can help to ensure that the power of the Internet is used productively. First, by providing credible information up-front, organizations can lessen the chance of being damaged by misinformation. Second, building trust and credibility with stakeholders through transparency may help prevent damaging market actions from occurring.
- **Public corporate financial debacles** —In response to a number of recent highly publicized financial debacles, there are increasing pressures on corporations to establish and maintain high standards of internal governance. Among other things, expectations for strong governance have been extended to include explicit guidelines for transparency with regard to environmental risks and liabilities.
- **Information begets information** — Many now view regulatory reporting requirements as just a starting point for the sharing of corporate information. Stakeholder expectations for information have been changed by the advent of the Superfund Amendments and Reauthorization Act (SARA) Title III* and the community "right-to-know" concept. These expectations are starting to be expressed through more formal channels, such as stockholder initiatives and advocacy for more legislation to expand corporate reporting requirements.

*SARA Title III (the Emergency Planning and Community Right to Know Act) was implemented by the US Environmental Protection Agency to increase public knowledge of the presence and threat of hazardous chemicals. Among other things, it requires companies to notify the public of chemical releases and chemical use, storage, and production activities.

CASE STUDY Transparency and Business Value
Novartis

The market value of Novartis, a leading global healthcare company, was approximately $120 billion in April 2004 and is more than half composed of intangible assets, such as the research pipeline of pharmaceutical products under development, the company's reputation, and its human capital. Because intangible assets represent such a significant proportion of Novartis's worth, protecting and enhancing their value is critical also to financial performance.

Among other things, threats to reputation, the "license to operate," and the "license to innovate" can put the value of a company's intangible assets at risk. In recognition that transparency plays a key role in protecting the value of intangible assets from each of these threats, Novartis has undertaken a number of initiatives to share information and promote dialogue with stakeholders on critical issues.

- Novartis has chosen to participate in the UN Global Compact (UNGC). The UNGC provides a unique forum for business, government bodies, and NGOs to engage in projects to further universal values and strengthen societal contributions of companies beyond the core business activities and engage in dialogue on critical social and environmental issues.
- Novartis has published its annual report to shareholders as a combined "Triple Bottom Line Report" that includes three years of environmental, social, and financial data (and two years of information on corporate governance).
- In November 2003, the Novartis Foundation for Sustainable Development hosted a major international symposium entitled "Human Rights and the Private Sector," which brought together nearly 500 experts and activists from around the globe to discuss the roles of corporations, governments, and NGOs in protecting human rights.
- In an effort to contribute to establishing best practice (a better understanding of the state of the art) with regard to stakeholder engagement, Novartis also participated with United Nations Environment and Development Forum (UNED), BP, the Ford Foundation, and a number of other stakeholders to develop the "Framework For Multi-stakeholder Processes," a step-by-step framework that allows for transparent, equitable, and democratic processes of dialogue and project development that is agreeable to all stakeholders and can be adapted to various situations and issues in a flexible manner (www.earthsummit2002.org/msp).

Novartis's investment in each of these initiatives was undertaken with the understanding that protecting the value of critical intangible assets would be a significant benefit.

The benefits of trust and credibility include:

- Increased brand loyalty and customer commitment — Both reduce market risk. For example, in the event of a product recall, customers may be more likely to remain with a company they deem trustworthy.
- Improved reputation — Reputation plays a role in attracting superior employees, loyal customers, and capital.
- Shortened critical response — Shortened response cycles improve relations with regulators, employees, customers, and the community. For example, the permitting process may be less time and resource intensive if an organization has established credibility and trustworthiness.

By increasing corporate effectiveness — Corporate openness may create opportunities to better understand and respond to the needs and concerns of stakeholders, as well as increase stakeholders' understanding of the business. An approach to transparency that adopts a two-way flow of information can contribute to knowledge assets — the knowledge that allows an organization to innovate and be responsive to changes in its environment.

Transparency and Intangible Assets

Much of the business value associated with transparency is in the form of intangible assets. Intangible assets are defined in GEMI's tool, "Clear Advantage: Building Shareholder Value, Environment: Value to the Investor," as:

"A nonmonetary asset, including people, ideas, networks, and processes, which is not traditionally accounted for on the balance sheet."

Intangible assets discussed in relation to transparency include:

- Customer commitment and brand loyalty
- Knowledge assets
- Brand value
- Reputation

Please refer to GEMI's "Clear Advantage" tool (www.gemi.org/GEMI Clear Advantage.pdf) for a more detailed discussion of intangible assets.

CASE STUDY Return on Trust

Dell Inc.

After a decade of unprecedented growth and financial return raised the company's investment profile, Dell has experienced an increase in the number of shareholder initiatives from advocacy groups requesting more explicit information on company processes and performance. Although strong process management and goal setting were in place for many of the issues of interest to these groups, Dell initially provided minimal responses to their requests for additional information. Dell was not accustomed to this type of direct dialogue and was unsure whether it would be in the company's best interest. In many cases, this low level of engagement turned out to be both unsatisfying to investors and time consuming for Dell.

Until Dell made the critical decision to trust a small core group of investor advocates, the situation was in danger of developing into a cycle of requests, commitments, delivery, and, ultimately, disappointment. Choosing to trust that select advocates valued Dell's long-term success, the company began to share information and ask for input on plans. The dialogue between Dell and this group quickly changed from threats of shareholder proxies to lengthy and open dialogue. This success changed the way Dell interacts with advocacy organizations in general. Dell now provides a variety of tools and forums to keep similar advocacy groups informed of Dell's progress. These include a bimonthly electronic newsletter, quarterly meetings, and an annual conference with Dell executives in which the company's CEO participates. Dell has also increased the number of Global Reporting Initiative (GRI) references in its annual sustainability report.

The results of this change in approach have led to public affirmation of Dell's efforts by these advocacy groups and an award for Dell's 2003 environmental report. Dell's trust in open and honest dialogue with organizations the company once considered critics changed the company's view of these groups from unreasonable idealists to valued business partners and serves as a catalyst for improved transparency going forward.

CASE STUDY Preserving Business Value

Johnson & Johnson

In the fall of 1982, seven people died after ingesting TYLENOL® capsules that had been poisoned with cyanide by an unknown criminal. Overnight, Johnson & Johnson was faced with a crisis of overwhelming proportions. Public trust in the company and its products seemed to be hanging in the balance. The first critical decision was to adopt a policy of full disclosure. The public and medical community were immediately alerted and TYLENOL® capsules were quickly removed from the marketplace. Throughout the crisis, Johnson & Johnson worked closely with news media to ensure the public was fully warned of the danger. In addition, the chairman and chief executive officer of Johnson & Johnson, as well as other top executives made themselves personally available to answer questions.

Johnson & Johnson's candid approach to dealing with these events has been cited by many as setting the standard for crisis management. The company has been widely recognized for its openness throughout the crisis and for putting the interests of the public before its own.

Consumers eventually came back to TYLENOL®, and the product regained its pre-eminence in the marketplace.

By improving performance — Any company that elects greater openness will be motivated to ensure that its performance — economic, social, and environmental — is a source of pride. For example, Toxics Release Inventory (TRI)* reporting became a potent driver for many companies to decrease their release of toxic emissions.

Preserving Business Value Through Transparency

Transparency can also be used as an effective tool to mitigate business risk, in particular the risk associated with lost trust. Loss of trust damages reputation, decreases the value of brand, undermines customer loyalty, is detrimental to the relationship with regulators, and is likely to affect employee morale and productivity. By providing a sound foundation for building trust, transparency may help to preserve value even in times of crisis.

"Corporate responsibility has no endpoint. Rather, we see it as an ongoing cycle of integration, translation and alignment. Here as elsewhere, our values inform our ideas and our conduct …."

— Intel, Global Citizenship Report 2002

Transparency as a Process

To be effective, an organization's transparency efforts should be embedded in a systematic process. The process should include both an iterative approach to defining a transparency strategy and a management systems approach to implementing related programs. The iterative nature of both the strategy development and implementation processes reflects the need for organizations to continually re-evaluate their strategy, goals, objectives, and performance to accommodate changing expectations and requirements.

*The Toxics Release Inventory (TRI) is a publicly available US Environmental Protection Agency database that contains information on toxic chemical releases and other waste management activities reported annually by certain covered industry groups, as well as federal facilities.

Workshop perspectives

Characterizing transparency as more a process than a product was a key theme that emerged from the GEMI transparency workshops. Participants concluded that transparency is a dialogue about what exchanges of information are appropriate and how fairly to assess that information. How and what a company decides to report, who has access to data or information reported, and how the company responds to feedback are as important as the data themselves.

The Key Elements of Transparency

Although activities that affect corporate transparency take place throughout an organization, three kinds of activities, in particular, play a critical role in defining and implementing a successful approach: leadership and governance, stakeholder relations, and performance reporting. These three elements are described briefly below and in more depth in the discussion of implementing a transparency strategy in Chapter 2.

Leadership and Governance

It is through leadership and governance that the corporate commitment to transparency is defined and communicated throughout the organization. Leadership establishes expectations and accountability, whereas good governance ensures commitments are implemented. Both are required to ensure a successful approach to transparency.

Stakeholder Relations

The relationship between the organization and its stakeholders is a key aspect of an organization's approach to transparency. An effective strategy will be based on an understanding of the stakeholders' need and desire for information, as well as an understanding of the dynamics that drive the stakeholders' relationship with the organization. Effective communication with stakeholders is the lynchpin of transparency and underlies all productive stakeholder relations.

Performance Reporting

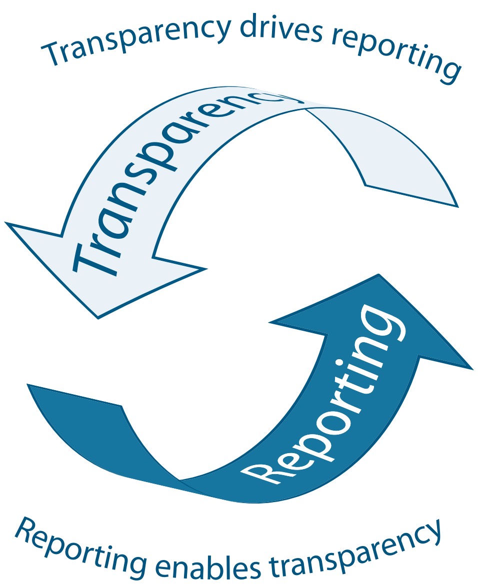
Prior to the stock market collapse of 1929, corporate activities and performance were considered purely a private matter. The public impact of what were then considered private corporate activities has made the reporting of financial information standard practice. Now the debate is centered on what other information corporations should make available in the public interest. As the evidence linking good social and environmental performance to key value drivers, such as brand, reputation, and future asset valuation mounts, the scope of reporting expected by many stakeholders has grown beyond financial performance to include Environmental, Health, and Safety (EHS), as well as social indicators. Companies are increasingly being asked to provide more and higher quality information on how they identify and manage social, ethical, and environmental risks — and to explain how these risks might affect short- and long-term business value.

> *"By issuing detailed reports from now on about our activities in the area of sustainability, we are exercising accountability and submitting our performance to public scrutiny. This creates transparency and at the same time encourages us to make further progress."*

— Franz B. Humer,
Chairman and CEO, Roche
From comments made at the Sustainability Media Conference as reported by Roche

These growing demands for corporate accountability have led to the expectation that corporations establish a basis for productive dialogue and performance evaluation by clearly communicating their commitment to environmental and social goals. Environmental and sustainability reporting has become the primary means of meeting this demand.

Figure 2: The Relationship Between Transparency and Reporting



CASE STUDY Reciprocal Transparency
FedEx Express

FedEx Corporation provides customers and businesses worldwide with a broad portfolio of transportation, e-commerce, and document-management services. In 2000, one of its subsidiaries, FedEx Express, teamed up with Environmental Defense, a leading environmental advocacy group, to develop a transportation solution for its pickup and delivery operation that was environmentally superior, cost effective, and met all of FedEx Express's operational requirements.

From its inception, the project was set up to be reciprocally transparent. The mission, objectives, and expected benefits and risks of the project for each partner were clearly understood. The reasons for undertaking the project were varied, including environmental improvement, saving money, and getting cleaner vehicles on the road sooner than regulatory pressures would have required. There were also risks involved in the project. Specifically, commitments were made at the beginning of the project that included "stretch" goals for environmental and economic performance. In addition, the project team did not know what the technical solution would be. However, the team managed risk through strong communication and contact at the highest level.

The results generated by the project have been encouraging. Eaton Corporation was selected to provide a hybrid-electric power train that works in combination with a bank of batteries and a diesel engine. Fuel efficiency in the new vehicle will increase 50%, with a corresponding 33% reduction in CO_2 emissions. Particulate emissions will drop by more than 90% and NOx emissions should be reduced 75%. In May 2003, FedEx Express announced its agreement to purchase the first 18–20 hybrid-electric delivery trucks for real-world operation in delivering packages. The first two FedEx Express OptiFleet E700 hybrid-electric vehicles were placed in operational service in February 2004. The remaining hybrid-electric vehicles will follow in additional cities in 2004.

The transparency of this project supported mutual trust between FedEx and Environmental Defense. As a result, Environmental Defense is comfortable with and supports having its logo grace each of these hybrid-electric vehicles, while encouraging other companies to utilize cleaner vehicles.

The Equality of Transparency

Although the focus of this document is on corporate transparency, true collaboration requires stakeholders to abide by the same standards of transparency that are applied to business. Trust and integrity are reciprocal in nature; a relationship of trust is mutual and implies that both parties act with integrity and honor. This being said, it is reasonable to expect the stakeholders of an organization, whether critics or supporters, to make a reciprocal commitment to transparency and apply the same critical success factors outlined above to their efforts.

Making Transparency Work

This document describes a systematic approach to defining and implementing an appropriate transparency strategy, using the **Plan-Do-Check-Advance** management system framework. To ensure that the business case for transparency is a compelling one and that the strategy adopted delivers the anticipated value, the approach is designed to account for the unique needs and circumstances of individual companies.

The chapters that follow provide tools and information to support the development of a transparency strategy that will minimize risk and preserve and enhance business value.

Workshop perspectives

Through its transparency workshops, GEMI has identified three factors that, from the perspective of stakeholders, are critical to the quality of corporate transparency. If these are adopted, they will go a long way toward demonstrating that the corporate commitment to transparency is sincere and credible.

- The Quality of Information — Efforts to become more transparent will not be perceived as legitimate unless the information exchanged with stakeholders is timely, consistent, accurate, relevant, verifiable, and balanced.
- A Commitment to Improvement — Corporate transparency activities should be oriented toward addressing challenges, not justifying current performance or position.
- Responsive Dialogue — Transparency activities should allow for a collaborative exchange of ideas that is more process than product and leads to a fair consideration of alternate viewpoints. This will enhance the corporation's ability to provide information relevant to critical customer and stakeholder interests.

"… we are striving to make our citizenship efforts every bit as innovative as our efforts in biomedical research. Good citizenship at Pfizer means that we put the health of people and communities first, incorporate the perspectives of stakeholders in our decisions, and make ethical choices that sustain our business for the long term …."

— Hank McKinnell, Chairman and CEO, Pfizer Inc, Letter to Shareholders, 2/26/04

CASE STUDY The Quality of Transparency

Eastman Kodak Company

Eastman Kodak Company's diversity program is an example of an initiative that has been integrated with the company's approach to transparency. A strong proponent for diversity, Chairman and CEO Daniel A. Carp reflects:

> *"Kodak's journey of building a winning and inclusive culture began nearly a century ago. Today, we at Kodak continue the journey because the best ideas come from teams of people with varied backgrounds, experiences and perspectives. This helps us understand and serve our customers' needs better than anyone else."*

Mr. Carp's words illustrate the company's ongoing commitment to fostering an inclusive culture. The actions taken to realize this commitment have also provided opportunities to demonstrate the quality of Kodak's efforts towards transparency. These efforts include:

Providing Quality Information

In 2001 Kodak formed an external advisory panel to conduct a two-year review of the company's diversity and inclusion efforts. Relying on an external advisory panel to evaluate Kodak's efforts helped ensure that the resulting information was both balanced and verifiable.

Demonstrating a Commitment to Improve

In addition to posting the results of the panel's two-year review on its web site, www.kodak.com/go/diversity, Kodak demonstrated its dedication to improvement by acting on the panel's recommendations. Initiatives undertaken include creating an internal diversity business case for leaders, training for all employees, and meeting targets for corporate spending on minority- and women-owned businesses. In addition, Kodak's board recently agreed to make diversity a criterion in the selection of the company's top leaders.

Engaging in Responsive Dialogue

Kodak has fostered continuous communication and open dialogue through employee networks, diversity discussions, and training opportunities as key aspects of its commitment to diversity.

Kodak's efforts have not gone unnoticed. The Diversity Best Practices and Business Women's Network ranked Kodak sixth out of 790 companies for the "Best of the Best: Corporate Awards for Diversity and Women 2003-2004."

Chapter 2 — Transparency by Design

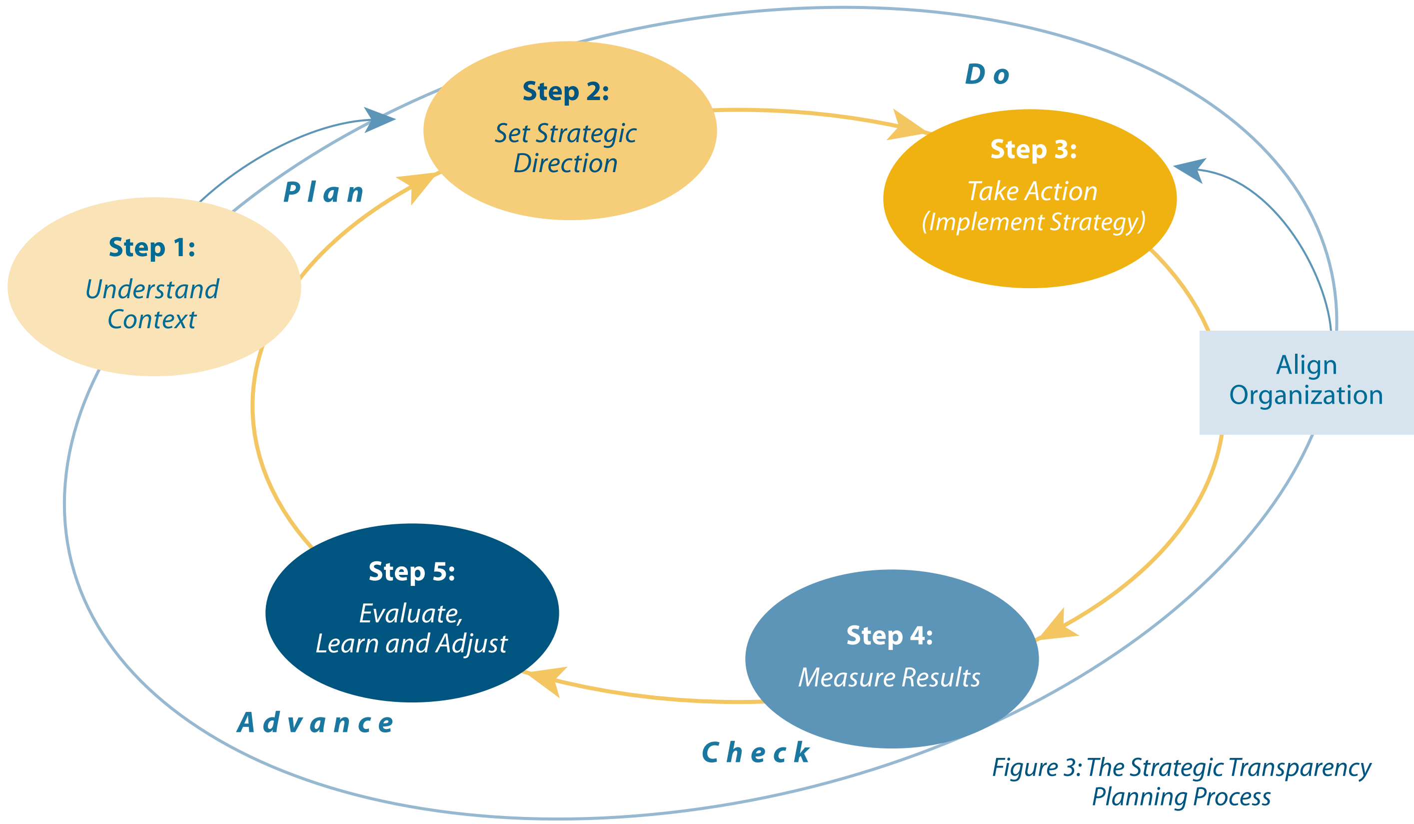


Figure 3: The Strategic Transparency Planning Process

Companies that achieve long-term success generally operate according to a business vision and set of well-defined strategic goals and objectives. Applying a strategic-planning process to transparency ensures that goals and objectives are designed both to create value and avoid unnecessary risk.

This tool uses a strategic-planning process based on the **Plan-Do-Check-Advance** framework to guide the development and implementation of an effective transparency strategy. Although the steps are presented in sequence, readers should keep in mind that the strategic planning process is cyclical and iterative. Before embarking on a new step, the organization should take into account what has been learned from the steps that already have been taken. Finally, when a new or modified transparency strategy is ready to be implemented, current business practices throughout the organization will need to be aligned with the new approach.

CASE STUDY Transparency by Design

The Dow Chemical Company

Dow Chemical has adopted the following eight Sustainable Development principles to guide its overall efforts and behavior:

- Product Stewardship
- Stakeholder Partnerships and Dialogue
- Eco-Efficiency
- Eco-System
- Local Versus Dow Standards — Dow products and operations will meet applicable government or Dow environmental, health, and safety standards, whichever is more stringent
- Equity and Quality of Life
- Employee and Public Outreach
- Transparency

In support of its principles on Transparency and Stakeholder Partnership and Dialogue, Dow has committed to reporting on its progress and performance in an open and transparent manner. Dow's goal is to build credibility by openly sharing this information with stakeholders.

One of the main vehicles to achieving greater transparency is the publication of Dow's corporate Public Report. To help ensure that the information contained in this report is relevant to its stakeholders, Dow solicited feedback from its Community Advisory Panels. This group of stakeholders made clear that both corporate and local information on Environmental, Health, and Safety are important to them. As a result, Dow publishes over 20 individual site reports with its Public Report. (www.dow.com/publicreport/2003/index.htm)

Another important component of the Public Report is the section on External Assurance, where Dow's standing Corporate Environmental Advisory Council, as well as the Public Interest Committee of the Board of Directors, provide feedback on the company's reporting and progress. Comments (including both accolades and criticisms) received from these two stakeholder groups are made available to the public online.

Dow also encourages feedback on issues of interest to other stakeholders via an online section called **What Do *You* Think?** This section also includes a brief, online survey to encourage additional comments and suggestions.

Dow has found that these actions in support of transparency, partnership and dialogue have helped to build the trust and credibility necessary for productive and mutually beneficial relationships with its communities and stakeholders.

Step 1 Understand the Context

An effective transparency strategy is tailored to the environment in which an organization operates. This requires gathering the information that will allow identification of those elements driving your organization toward transparency and its capacity to address them. Four key elements of the business environment will need to be considered:

- Company strengths and weaknesses
- Company principles and mission
- Business opportunities and risks
- Stakeholder expectations

This can be accomplished by completing the following activities:

- Assessing internal current state
- Evaluating business opportunities and risks
- Knowing your stakeholders

Each of these activities is discussed in more detail below.

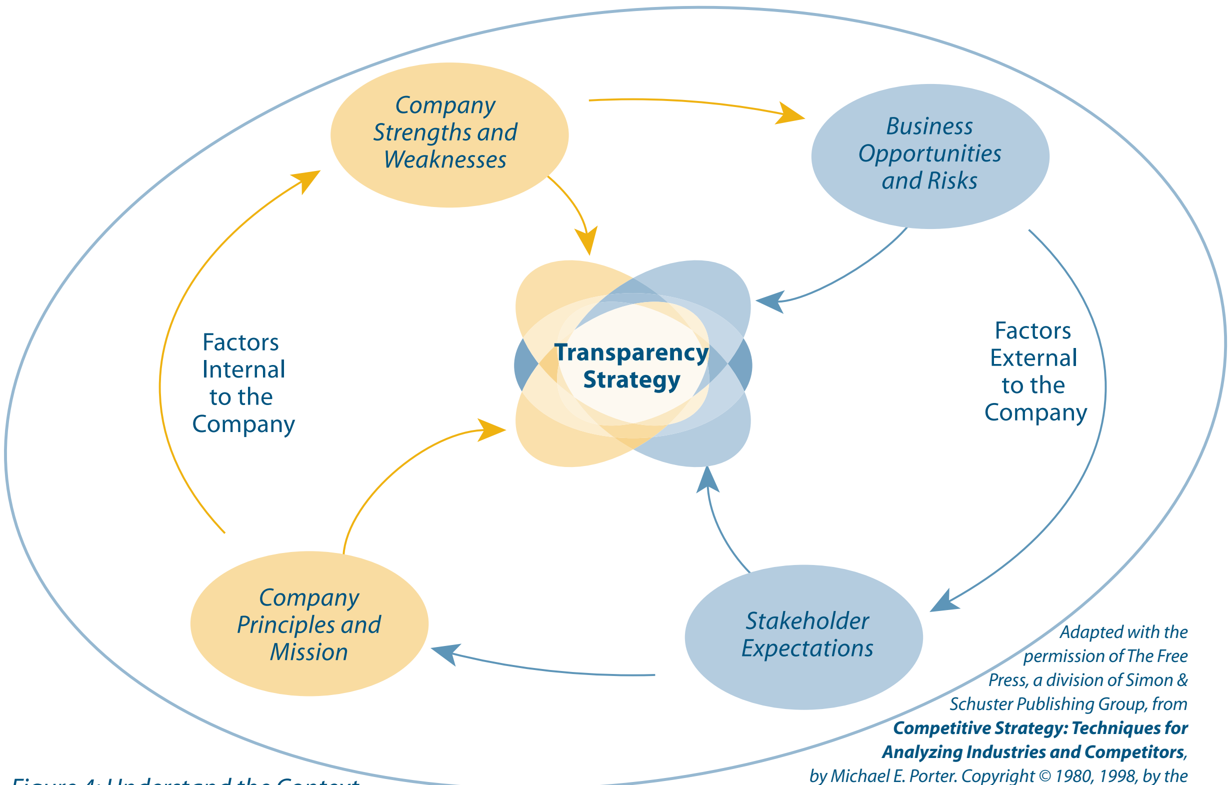


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Figure 4: Understand the Context

Assess Internal Current State

Understand and seek alignment with the company principles and mission

While an organization continually adapts to its environment, certain core ideals remain relatively constant. The business vision or mission statement articulates the core values to which an organization is committed and the visionary goals it will pursue to fulfill its mission. These rarely change and may provide critical insight into your organization that will be important to consider when developing a transparency strategy.

For example, some companies have adopted a business vision statement that includes commitments to corporate social responsibility and sustainable practices. Within these organizations, transparency can play a critical role in achieving commitments to sharing information.

STEP 1

Assess organizational resources

An assessment of organizational resources should focus on identifying those that can and should be engaged in the implementation of a transparency strategy. The assessment may include financial, human, and information system resources.

Financial resources. Financial resources currently available to support implementation of your transparency strategy might include budgets to create and publish environmental and social reports, maintain a public web site, publish internal and external newsletters, organize community events, and develop and deploy information system tools among others.

Human resources. Although transparency applies to the entire organization, certain business functions may play a particularly significant role in implementing the commitment to transparency. These include: the board of directors; senior management; public and government relations; controllers; internal auditing; legal; and health, safety, and environment. Information technology, plant management and operations, commercial operations, human resources, and marketing departments may also play a role. Key personnel in each of these functional areas should be identified, as well as the role they are currently playing with respect to organizational transparency.

Information system resources. Data collection and information management are key components of transparency. The capabilities of your current information management resources will therefore significantly affect the implementation of your strategy. The goal of assessing information system resources is to understand what data collection systems are currently in place, the process for developing and implementing new or modified systems, and how robust your information management capabilities are in general.

CASE STUDY Mission, Values, and Transparency

Bristol-Myers Squibb Company

In its BMS Pledge published on its web site, Bristol-Myers Squibb strongly commits to integrity in all of its practices. The Pledge includes promises to "act on our belief that the priceless ingredient of every product is the honor and integrity of its maker," to maintain "an open door" to suppliers, to demonstrate "conscientious citizenship," and "to adhere to the highest standard of moral and ethical behavior and to policies and practices that fully embody the responsibility, integrity and decency required of free enterprise if it is to merit and maintain the confidence of our society." The BMS Pledge is, in fact, presented in a manner that addresses key stakeholder groups directly — customers, colleagues, suppliers, shareholders, and communities. As a result, the company has undertaken a number of key stakeholder engagement initiatives, including deployment of a highly acclaimed, interactive web site that is used to share critical information on performance and allows stakeholders to provide feedback on what they learn.

Understand the assumed commitment to transparency

Whether or not your organization has adopted an official transparency strategy, management is likely to *assume* a strategic approach when making decisions about transparency-related activities and investments. These assumptions will provide invaluable guidance whether you are developing a transparency strategy for the first time or re-evaluating an existing strategy. The objective of this activity is to:

- Derive from current practice your organization's actual level of strategic commitment to transparency
- Determine how committed management feels the organization should be to transparency on environmental and social performance

Identify and appraise current transparency activities

New transparency initiatives may be implemented more efficiently by building on current practice when possible. This will require identifying the many ways your organization routinely shares information with stakeholders and the impacts of these activities. Once the various functions and practices that impact transparency have been identified, their effectiveness may be appraised to identify gaps and document best practices.

Often this is done in the context of performing a gap assessment. The goal is to identify where transparency policies and procedures do and do not exist, as well as what might be done to make existing policies and procedures more effective. Generally this will be accomplished through some combination of questionnaires, interviews, and document review.

Tool #1
Transparency Strategy Assessment

Questionnaires or interviews administered to senior management and key employees can be an effective way to gather the information you need to determine your organization's current commitment to transparency with regard to environmental and social performance and to evaluate attitudes and expectations about its future commitment. You may also use this assessment to map current roles and responsibilities for transparency-related activities. The following list provides examples of questions that might be asked. Before posing these questions, it is important to define "transparency" to ensure that the respondents understand what is meant by the term.

- Is transparency an issue the company is actively working on today? Why or why not?
- Do you believe transparency is an issue the company will have to actively address within the next 5 years? Why or why not?
- In your view, how committed is the company to being transparent? How committed should it be? Why?
- What business value, if any, do you think can be derived from transparency? What are the most significant risks?
- How does your function/department approach its relationships with external stakeholders? Internal stakeholders?
- In your view, what should the company be doing with regard to stakeholder engagement that it is currently not doing? What should it stop doing?
- What responsibilities do you have with regard to transparency?
- Describe the three most important transparency-related activities for which you are responsible.

STEP 1

Table 1 lists many of the transparency activities you can anticipate finding, where you might expect to find them, and their relationship to the three key elements of corporate transparency.

Table 1: Transparency Activities

Department	Leadership and Governance Practices	Stakeholder Relations Practices	Measurement and Reporting Practices
Board of Directors	Board policies and procedures	External advisory boards	
Executive Management	Mission and/or value statements, corporate performance commitments (environmental and other), CEO mandates, strategic and operational management guidelines	Advocacy	Security and Exchange Commission (SEC) statements, corporate performance reports (health and safety statistics, audit reports, etc.)
Finance	Annual report, SEC filings	Investor relations	Financial reporting
Human Resources	Recruitment practices, training practices, training programs and materials	Union relations, internal employee newsletters, benefits policies	Employee opinion surveys
Marketing and Sales	Training programs and materials	Advertising, tradeshow participation, branding activities	Customer surveys, focus groups
Purchasing	Preferred provider policies and procedures	Supply chain management policies and procedures	Supplier questionnaires
Public Relations and Corporate Communications	Policies and procedures to ensure that communications have factual basis	Press releases, community relations programs, community participation program, charitable giving programs	Corporate web site
Environmental, Health, and Safety	Environmental, Health, and Safety (EHS) goals and commitments; Environmental Management Systems (EMS) policies and procedures	Regulatory findings, external advisory panels, training programs and materials, participation in trade and industry associations	Environmental/ sustainability reports, regulatory reports, incident reports, audit reports, consent decrees, internal and external newsletters
Plants, Facilities, Local Operations	Best practices and Standard Operating Procedures (SOPs) that implement policy at the local level	Public open houses, community events, community advisory panels	Audits, audit reports, local environmental or sustainability reports

Tool #2
Appraise Current Transparency Activities

The following worksheet can be used to complete your inventory and gather the data needed to assess their effectiveness. Two examples of transparency-related activities have been provided below.

Policy, procedures, tools: Provide a brief description of a policy, procedure, or tool currently in place that contributes to transparency.	**Responsible party**: Who is responsible for the policy, procedure, or tool described?	**Impact**: What is the impact of the policy, procedure, or tool described? What is the intended impact? Is it effective?	**Opportunities**: Are there opportunities for improving the effectiveness of the identified policy, procedure, or tool?	**Risks**: What risks are posed by the policy, procedure, or tool?
Example: **Community Newsletter**				
Newsletter published monthly reporting important community events and publicizing the community activities of the company.	Developed and published by corporate communications with input from various departments.	Widely read, very effective. Intended to provide a community service.	The newsletter's contribution to organizational credibility might be enhanced by creating opportunities for community input into what information they would like to see reported.	Care must be taken to seek appropriate balance in reporting events.
Example: **EHS Intranet Home Page**				
EHS portal that can be accessed by all employees over the Intranet. Source of company EHS performance statistics.	EHS staff develops content, EHS director approves for publication.	Updates employees on EHS performance of organization; provides information that will improve performance of EHS function; disseminates best practices.	Could improve portal by using it to provide users with quick access to key EHS databases, such as Material Safety Data Sheets (MSDS), incident reporting, best practices, training tracking, etc.	Appropriate security must be implemented to ensure confidential information is not made public.

"Recent corporate scandals of other major companies have drawn attention to business ethics and there is a clear demand for greater transparency and accountability. Our stakeholders not only want to know what products and services we offer, but also want to be assured that the way we are developing, manufacturing and marketing them meets the highest ethical standards with regard to competition law, marketing standards, sustainability and conflict of interest in medical research, to name a few."

— Igor Landau, Chairman of the Management Board, Aventis SA

STEP 1

Evaluate Business Opportunities and Risks

Identify opportunities and risks

Transparency can create opportunities as well as pose risks for your organization. These potential risks and opportunities should be identified and their materiality determined prior to developing or modifying your transparency strategy.

Table 2 provides a broad overview of the kinds of risks and opportunities you may need to consider as you develop your organization's transparency strategy.

Table 2: Transparency-Related Opportunities and Risks

Affected Area	Opportunities	
Competitive Advantage	◆ Some customers may seek to do business with companies that are committed to transparency. ◆ A transparency strategy that embraces a two-way exchange of information may allow a company to benefit from first-mover advantage. ◆ A progressive transparency strategy may allow a company to differentiate itself and its products in the market. ◆ Good information gained from an effective transparency strategy may enable better decisions: markets function best with full disclosure. ◆ A progressive transparency policy can lead to creative partnerships and be a source of innovation. ◆ By building trust, transparency can improve an organization's relationship with regulators and other key stakeholders, thereby decreasing time to market and lowering compliance costs. ◆ Organizational openness may increase employee morale and thereby retention, loyalty, and productivity.	
Governance	◆ Adopting a transparency strategy may facilitate internal alignment and support effective governance.	
Investors and External Indices	◆ A growing body of evidence seems to indicate that environmental and social performance is correlated with the overall performance of the business. Some in the investment community are beginning to use the information made available through transparency as an indicator of an organization's attractiveness to financial markets.	
Reputation, Corporate Image and the License to Operate	◆ An effective transparency strategy can reduce the risk of negative surprises, bad press, litigation, and labor actions. ◆ The trust that an effective transparency strategy builds with the public and other stakeholders will become the foundation of a corporation's license to operate.	
Confidential and Private Information	◆ Build trust by providing specific reference to private and confidential information and explaining why it cannot be shared.	
Bottom Line	◆ Transparency may make available the information necessary for businesses to invest logically to reduce environmental and social impacts.	
Security	◆ Transparency about organizational activities to address security concerns will create stakeholder confidence that issues are being addressed.	
Information Management	◆ A well-designed approach to information management will put data into context and make them more accessible and clear to both internal and external stakeholders.	

Table 2, continued

Affected Area	Risks
Competitive Advantage	◆ Some customers may shun organizations that are perceived to be actively withholding material information. ◆ The reputation and credibility of your organization may be damaged if you are unable to meet the expectations set by your approach to transparency. ◆ Adopting a progressive approach to transparency may provide competitors with information they can use to their advantage. ◆ The lack of a level playing field may create risk for those who adopt a progressive transparency strategy. Competitors, as well as stakeholders with an interest in changing corporate behavior, may choose nondisclosure. ◆ Global organizations that must comply with a variety of cultural and legal standards may also face risks associated with the conflicting approaches to transparency created as a result.
Governance	◆ Gathering and reporting data to the board and management can consume a significant amount of time and resources throughout the organization.
Investors and External Indices	◆ The number of indices that guide investment decisions by ranking companies according to their environmental and social performance has grown steadily. It requires significant resources to respond to all of them, but companies may appear unresponsive if they do not respond.
Reputation, Corporate Image and the License to Operate	◆ Elevated expectations created by a commitment to transparency can be difficult to meet. ◆ A selective or inconsistent approach to transparency can erode trust. ◆ Publicizing goals that are not in alignment with corporate activities and performance may damage a company's credibility. ◆ A consistent approach to transparency means bad information, as well as good, must be made available. The potential consequences of making available information that could result in fines, penalties, or legal actions must be anticipated. ◆ A wired world has made spreading misinformation easier than ever. There is a significant risk that if you do not tell your story, it will be told for you and may include inaccuracies.
Confidential and Private Information	◆ Intellectual property, confidential information, the privacy of employees and consumers, the sanctity of contracts and legal requirements must be protected. ◆ There may be conflicts between laws and regulations that require you to disclose and private contracts that require you to protect information from public view.
Bottom Line	◆ There are real costs associated with transparency that need to be estimated to ensure they do not outweigh the potential benefits.
Security	◆ Some information, if made public, could threaten the security of the company, its facilities, or the community. Balancing the public's right-to-know with security may be a challenge.
Information Management	◆ Complex, unclear, and/or inconsistent regulatory reporting requirements and methodologies may produce data that are confusing, difficult to interpret, and hard to use. ◆ Inadequate data capture may limit what data are available to create meaningful reports.

Tool #3
Identify Opportunities and Risks

The following set of key questions may be useful in helping to identify which of these opportunities and risks are pertinent to your organization:

- What are your stakeholders' expectations for performance? Which of these expectations are material to your organization? Why? How might transparency affect stakeholder expectations?
- How might changing your approach to transparency affect your organization's relationship with stakeholders?
- How might a change in your approach to transparency affect your competitive position in the marketplace? Is your competitive position based on proprietary knowledge?
- What information are you required to make public as a result of the laws, regulations, and contracts with which you must abide? What information are you required to protect as a result of confidentiality agreements or other contractual requirements? Are you aware of any conflicts between these two?
- What is the public's "right-to-know"? What information must be provided on the potential risks residents face from both chronic and acute environmental hazards in their communities?
- Do you need to address facility-based materials accounting (mandated in certain states)?
- Do you have a robust system for capturing environmental and other related data? Have you developed internal metrics to measure environmental or other nonfinancial performance? Given the data that are available, how difficult will it be for your organization to produce meaningful, quality information instead of just more data?
- Are your key stakeholders committed to transparency? If there is a discrepancy between your organization's commitment to transparency and theirs; what conflicts have arisen or may arise as a result?
- If you operate globally, what issues are you facing as a result of the different cultural and legal standards in the other countries in which you operate?

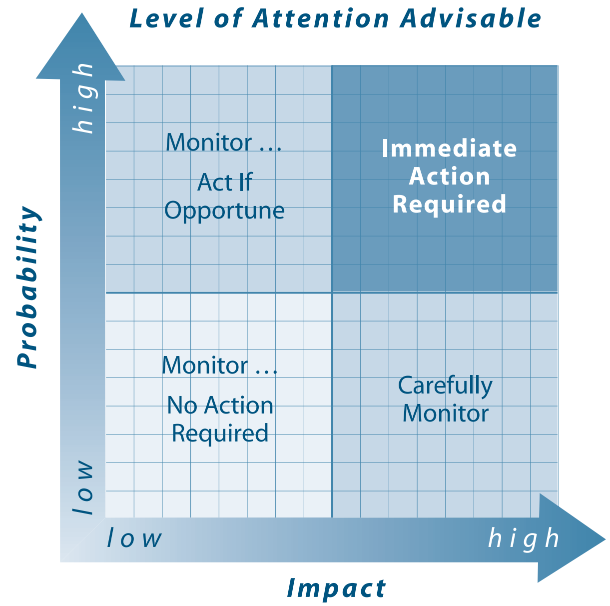
Assess the materiality and potential impact of opportunities and risks

Determining materiality is a critical step in deciding what merits the attention of an organization and its stakeholders. However, few concepts are more elusive or difficult to address. Although it has long been a key concept in financial reporting, attempts to apply a standard of materiality to nonfinancial issues are relatively recent. For financial reporting purposes, materiality is defined by Financial Accounting Standards Board (FASB) as follows: "The omission or misstatement of an item in a financial report is material if, in the light of the surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item." This statement goes on to explain that evaluation of a particular item's materiality is complex, involves quantitative, as well as qualitative, considerations, and requires seasoned professional judgment.

Although different factors may be considered when assessing the materiality of financial transactions versus nonfinancial, the concept of materiality is still applicable. In either case, the key to determining materiality will be assessing whether the item in question can affect a stakeholder's evaluation of your organization's performance. In the case of financial materiality, the effect on performance is measured in terms of impact on net income, assets, and sales. In the case of nonfinancial materiality, impacts are more likely to be measured in terms of impacts on reputation, license to operate, or other off-balance-sheet assets. Your organization will have to make its own determination of what constitutes a material impact when it comes to nonfinancial indicators. A rationale for determining materiality that is well-documented and applied consistently is recommended to avoid the risk of appearing arbitrary.

Once transparency-related opportunities and risks material to your organization have been identified, plotting them onto a simple matrix, such as the one in Figure 5, will help evaluate the most appropriate investment of resources, both to mitigate key risks and realize key opportunities. In particular, opportunities and risks that fall into the upper right quadrant of this matrix should receive specific consideration when developing a transparency strategy.

Figure 5: Business Impact Matrix



Know Your Stakeholders

How and what information is exchanged between your organization and its stakeholders is the basis of transparency. The type and quality of these interactions will vary from stakeholder to stakeholder, depending on a number of factors including:

- The goals, expectations, and demands of the stakeholder
- The influence the stakeholder can exert over your business
- The degree of mutual trust and credibility between the organization and its stakeholders
- The contractual relationship between the organization and its stakeholders
- The nature of the personal relationships that underlie the interactions

The following activities will help you to evaluate current stakeholder relationships and identify opportunities for making them more productive.

STEP 1

Identify significant stakeholders

The first step in identifying significant stakeholders is to conduct an inventory of all stakeholders in your organization. The goal of this inventory is to:

- Develop a comprehensive list of all stakeholders that interact with your organization
- Gather key information about each that will help you to understand their goals, expectations, and motivations, as well as the current state of your relationship with them

Talking with staff who interact directly with various stakeholders is often an effective way to collect this information. Enough information needs to be collected about each stakeholder to be able to assess how well their goals and expectations align with those of your organization, identify strengths, weaknesses, and gaps in existing relationships, and evaluate associated risks and opportunities. The set of questions presented in Tool #4 are designed to help guide this effort.

Once you have identified all of your stakeholders, you may want to decide which stakeholders are "significant" to your organization. It is unrealistic to expect that an organization can or should meet every expectation of every stakeholder that

Tool #4
Know Your Stakeholders

Identify your stakeholders. To ensure you are not overlooking key stakeholders, you may want to provide opportunities for a relatively broad cross-section of staff to respond to the following questions.

- Who are the key external and internal stakeholders with whom you interact in the course of doing your job?
- Can you name other stakeholders with whom you think we should be interacting?

Gather key stakeholder information. Answers to the following questions can be used to help evaluate the significance of a stakeholder and what actions an organization might take to better meet a particular stakeholder's needs. Answers may be gathered from stakeholder web sites and publications, web searches for recent news involving the stakeholder, interviews with the staff who have primary contact with the stakeholders or, in some cases, by talking with the stakeholders themselves.

- What impact does or could this stakeholder have on our business?
- What impact does our business have on this stakeholder?
- What issues are important to this stakeholder? Why?
- What type of information does this stakeholder want from the organization? Why?
- What type of information have we been providing? Are they satisfied with the information?
- What type of information about the organization does the stakeholder provide to its members? Does the information they communicate support or contradict statements the organization publishes about itself?
- What is the status of the organization's relationship with this stakeholder (nonexistent, hostile, tolerant, neutral, supportive, collaborative)?
- What is the status of the personal relationship with this stakeholder (nonexistent, hostile, tolerant, neutral, supportive, collaborative)?
- What are the benefits and costs of this relationship for the company? For the person who has primary relationship with the stakeholder?
- What opportunities does this relationship present? Are they being realized? How or why not?
- What risks does this relationship present? Are they being addressed? How or why not?
- What could be done to improve the relationship?

is identified in a comprehensive inventory. At a minimum, an effort can be made to address the material expectations of "significant" stakeholders. Although a variety of methods can be used to identify significant stakeholders, a simple approach suggested by Kochan and Rubenstein (2002) is to classify as "significant" stakeholders who meet one or more of the following three criteria:

- They supply resources that are critical to the success of the enterprise.
- They have something at risk; their own welfare is directly affected by the performance of the enterprise.
- They have sufficient power to affect the performance of the enterprise, either favorably or unfavorably.

Workshop perspectives

Participants in the first GEMI workshop were asked what desired outcomes were to be achieved through transparency. Ideas from the discussion included achieving equity, justice, and basic human rights; improving the lives of world consumers; contributing to a sustainable world; ensuring sustainable economics; and ensuring international equity of quality of life as opposed to a simple transfer of impacts.

CASE STUDY Stakeholder Relations
The Coca-Cola Company

The Coca-Cola Company has put a number of programs in place to support productive engagement with key stakeholders. In early 2002, The Coca-Cola Company established an Environmental Advisory Board of outside stakeholders to inform the company on existing and emerging environmental issues. Through this board, the chairman and the executive committee of the company receive candid, independent advice on environmental matters and on environmental policies, programs and performance.

Coca-Cola has also established an Environmental Partners program to promote collaboration with environmental organizations on addressing key environmental issues the company faces. In 2003, the third annual Environmental Partner meeting was held at the company's world headquarters in Atlanta. The meeting focused on overall strategy on water and resource management/recycling. Representatives from 12 leading national and international environmental organizations attended the meeting. These representatives worked directly with The Coca-Cola Company's environmental staff to reach a common understanding of the critical water and resource issues faced by the company and propose practical approaches for dealing with them. In conjunction with this meeting, Coca-Cola hosted a reception involving local and regional partners around Atlanta and the southeast. The local and regional organizations were able to gain understanding on how local issues fit within a broader context through their interactions with the national and international groups represented at the gathering.

Understand your relationship with significant stakeholders

How your organization chooses to engage with a stakeholder may depend in part on an understanding of the existing relationship. An organization may choose to establish different "rules of engagement" for a hostile stakeholder versus a committed one. Once you develop an understanding of your relationship with significant stakeholders, the risks and opportunities associated with these relationships may be considered part of your approach to transparency.

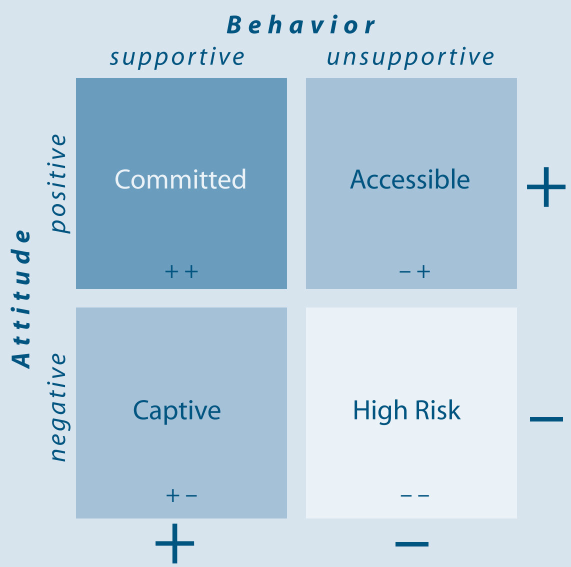
A simple method for assessing stakeholder relationships is described in Tool #5.

"If sustainable growth is our goal, we must imagine ways for all stakeholders to participate in the process and for all stakeholder concerns to be considered."

— Chad Holliday, Chairman and CEO, DuPont

Tool #5
Understand the Stakeholder Relationship

The matrix below provides a simple approach to assessing stakeholder relationships. Stakeholders can be located on the matrix according to the following criteria:



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Committed – Stakeholders who act and feel positively about an organization.

Accessible – Stakeholders who feel positive about an organization, but this positive attitude has not been translated into action. These stakeholders are likely to be open to efforts to develop commitment.

Captive – Stakeholders who regard an organization with disfavor yet continue to act supportively are generally acting out of necessity or obligation, whether legal or economic, as opposed to an emotional disposition toward the firm. For example, an unhappy employee who stays in a position because of a poor job market might be considered captive to the organization. Captive stakeholders are likely to discontinue as a stakeholder as soon as they are able. Of greater concern, however, is the possibility that these stakeholders become high risk. It is worth evaluating what factors are contributing to the negative attitude of these stakeholders and determining whether the organization can respond in a way that will create commitment.

High Risk – Stakeholders in the high-risk quadrant can pose significant risk of damaging organizational value. For example, hostile stakeholders may actively undermine corporate reputation or engage in costly legal conflicts. Organizations must assess the level of risk associated with high-risk stakeholders and take appropriate actions to mitigate those risks.

Step 2
Set Strategic Commitment

Once stakeholders and organizational context have been assessed, this information can be used to inform key decisions regarding strategy. These decisions include:

- Defining a transparency strategy that fits the unique needs and requirements of your organization
- Establishing measurable goals and achievable objectives with clear lines of responsibility and a prioritized action plan

Define Strategic Commitment

The transparency strategy adopted by your organization will define a commitment to transparency along a continuum from opaque to transparent. (See Table 3)

The appropriate level of commitment to transparency will be based on:

- An evaluation of the potential impact on key risks and opportunities
- An assessment of your organization's ability to implement various strategies

Table 3: The Transparency Continuum

	Opaque	Translucent	Transparent
Description	The minimum of disclosure as required by law; providing little additional information to the public beyond legal requirements.	Moderate disclosure with emphasis on "telling your story" rather than on balanced reporting. Selective engagement with stakeholders.	The open, balanced disclosure of activities — both good and bad. Some companies see external input and criticism as a means for real learning and improvement.
Drivers	No significant business drivers. Companies with low impact, low visibility, minimal stakeholder interest and no distinct brand, might adopt this approach. The costs associated with transparency are greater than the benefits.	Opportunistic response. The move towards greater transparency is either in response to certain events or is proactive for competitive reasons. This might be a "first step" for companies towards greater transparency.	Significant business drivers. Companies with high visibility, high impact, large regional or international presence, company-specific EHS issues, highly interested/active stakeholders, significant brand equity, external pressures or CEO mandate. Seen as source of competitive positioning and real learning.
Strategic Approach	Transparency will not add value for either the organization or stakeholders and may even create risk. Minimize transparency, primary objective is compliance. Monitor business drivers affecting transparency; undertake no transparency initiatives except in reaction to a change in business drivers; react to stakeholder demands only as necessary.	Transparency is a response to specific challenges and opportunities the organization faces. Monitor business drivers and competitors' positions regarding transparency. Middle ground might be difficult to maintain. Risk of being criticized for selective disclosure and "green washing."	Transparency contributes to the credibility of the organization, positions the organization favorably against competitors, enhances the public trust, and mitigates risk. Engage in responsive dialogue with key stakeholders about activities, provide quality information that helps stakeholders make informed decisions about their involvement with the organization, and create accountability for improved business performance.
Supporting Activities	Reporting as required by regulation.	"High level" or selective environmental/sustainability reporting, targeted stakeholder engagement, increased publication of mostly "one-way" information externally via web sites and other media, monitoring of external trends.	Environmental/sustainability reporting, stakeholder partnerships and collaboration, socially responsible investing (SRI) questionnaires, interactive public web site, and stakeholder forums.

STEP 2

Tool #6 Evaluate the Impact of Selected Approaches to Transparency

The impact of a selected approach to transparency may be evaluated using a business impact matrix. Opportunities and risks are positioned on this matrix by considering both their significance and their manageability.

For each level of strategic commitment being considered (opaque, translucent, transparent) and for each significant risk or opportunity that has been identified, attempt to answer the following questions:

How would adopting the strategic approach impact the business risk *being considered?*

- Would the significance of the risk be reduced?
- Would your ability to control the risk be improved?

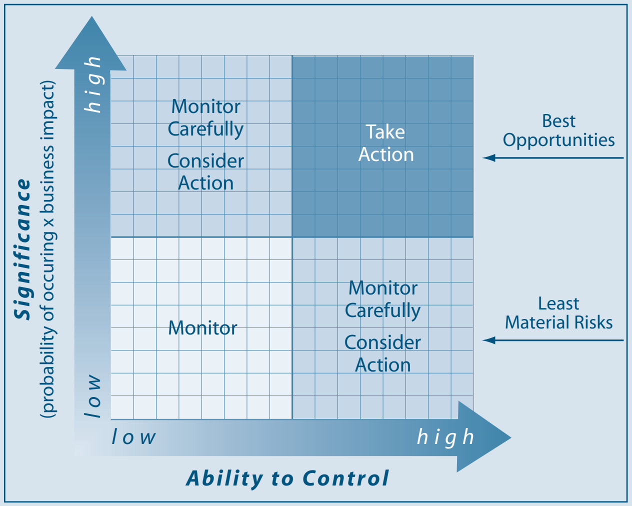
Reposition your key risks within the business impact matrix based on the answers to these questions.

How would adopting the strategic approach impact the opportunity *being considered?*

- Would the significance of the opportunity be increased?
- Would your ability to realize the opportunity be improved?

Reposition your opportunities on the business impact matrix based on the answers to these questions.

Business Impact Matrix



Select the strategic approach that most significantly shifts your key risks to the lower right quadrant and your opportunities to the upper right quadrant, as indicated in the diagram above.

- A consideration of how well the commitment aligns with your organization's overarching strategic vision

Evaluate the impact on key risks and opportunities

The impact on key risks and opportunities faced by your organization may be an important consideration in deciding on a particular approach to transparency. The Business Impact Matrix described in Tool #6 provides one approach to conducting this evaluation.

Assess your organization's ability to implement

The ability to implement a preferred strategy will be a function of:

- The effort required to close the gap between the preferred approach and the current approach
- The resources available to perform the activities required to close these gaps

As part of understanding the context (Step 1 of the **Plan-Do-Check-Advance** cycle), both the current approach to transparency and the resources available to implement a transparency strategy were assessed. This information can now be used to determine whether the preferred strategy can realistically be implemented.

As an example, if the preferred approach will require significant effort to implement and resources are limited, a modified approach may have to be adopted.

Seek alignment with the overarching strategic vision

Finally, you want to ensure that your preferred strategy is aligned with the overarching strategic vision of the organization. Step 1 of the **Plan-Do-Check-Advance** cycle identified the company values that support transparency. Alignment with the mission and goals will help ensure effective implementation and powerful results. On the other hand, conflicts between the mission of the organization and the preferred strategy will seriously threaten its success.

Establish Strategic Goals and Objectives

Once a transparency strategy has been adopted, strategic goals and objectives must be established to define more specifically how the organization will realize its intent.

Examples of transparency-related goals and expectations

Understand stakeholders' expectations — Reduce risks by understanding and meeting stakeholders' expectations for responsible behavior; achieve recognition for doing so by investors, customers, and communities where the company operates.

Be the company of choice — Be seen as a good corporate citizen whose performance matches its words. Become the company of choice for customers, employees, investors, suppliers, partners, governments, and the communities where it operates.

Be accountable for performance — Commit to improvement, then be transparent and accountable by measuring and reporting financial and nonfinancial performance.

Communicate openly — Provide full and relevant information about the company's activities to legitimately interested parties, subject to any overriding considerations of business confidentiality and cost.

Provide quality information — Provide information that accurately and fairly explains the activities of the company and its relevant impacts on the environment and sustainability.

Operate with integrity — Practice and uphold the highest ethical standards and fairness in all aspects of the business and expect the same from all those with whom the company does business. Commit to transparency in all business dealings.

Expect transparency from others — Governments, transnational bodies, and NGOs should also be expected to be transparent to the same degree as businesses.

In addition to the general goals cited above, recent events have driven demands for more specific goals and objectives for transparency. In particular, the extractive industry is being called upon to make commitments to combat corruption, misappropriation of revenue, and social inequity through increased transparency of payments to local governments and related activities. Further, abuses and failures in corporate behavior have resulted in a public outcry for reform in corporate governance and demand for significant improvement in corporate accountability and transparency.

STEP 3

Step 3
Take Action

Once a transparency strategy has been adopted, it must be implemented. This requires defining the set of activities that will need to be performed to accomplish the established goals and objectives. A management system framework will help ensure that desired results are continually delivered.

Most transparency activities will take place within one of three key areas, each of which will become a focal point in the implementation process:

- Leadership and Governance
- Stakeholder Relations
- Performance Reporting

A strategic approach to transparency will be sustained only if the attitudes, expectations, and practices that currently impact transparency are brought into alignment with the adopted approach. The following sections discuss the key issues that should be considered when implementing your transparency strategy.

Leadership and Governance

The transparency strategy you adopt has the greatest chance of success when:

- Leadership understands and is convinced of the business case for action
- There is a clear, unwavering leadership commitment to the strategic goals and objectives for transparency, and this commitment has been clearly articulated
- The implementation of transparency-related initiatives is supported by solid corporate governance systems, such as policies, strategies, management systems and assurance processes

The commitment to transparency must also be embedded into decision-making processes throughout various functions and levels of the organization. Senior management will need to establish/modify assurance processes and conduct senior management reviews to verify progress.

Implementation of a commitment to transparency may also require strengthening specific elements of corporate governance that specifically address the openness of an organization, such as:

- Mandating a higher proportion of nonexecutive, independent board membership
- Increasing board oversight on issues of business ethics, accountability, and corruption
- Strengthening risk management capabilities
- Increasing sophistication of management of issues of corruption, ethics, and business accountability
- Paying greater attention to internal and external auditing, including implementation of new regulations, most notably Sarbanes-Oxley
- Increasing training and education of board members, senior management, and key employees

Many of these reforms are intended specifically to create accountability and build corporate trustworthiness and credibility.

CASE STUDY **Transparency Goals and Objectives**

The Procter & Gamble Company (P&G)

In 1999, P&G held two Western European stakeholder conferences about the environmental performance of detergents. Some 40 delegates from NGOs, governmental organizations, and business participated in the events. One of the outcomes was a commitment by P&G to provide relevant information about the company's activities packaged in ways that would satisfy the various needs of different stakeholders. To help meet this pledge, P&G created a web site for the fabric and home care business entitled "Science in the Box" (www.scienceinthebox.com/en_UK/main/index_en.html). The site starts with simple information at the first page, then builds more detailed information within. The site focuses on the science and safety behind P&G brands, including research and development processes, safety assessment, sustainability, and product safety information. The primary audiences for the site are government authorities, NGOs, scientists, teachers/students, and interested consumers. The following statement explaining P&G's commitment to transparency can be found on this site:

"A commitment to more transparency and openness

Over the years, we have learned that societal concerns focus on different priorities in various parts of the world. Also, sustainability issues depend on local environmental, social and economic circumstances. We therefore believe that we can best address the sustainability of our products by focusing on fairly homogeneous parts of the world. This site is the logical next step after a similar site we launched in Denmark few years ago and one of the results of a pledge we made at a West-European stakeholder consultation. This site is intended for different audiences also in terms of background and level of education. The structure of the site is in layers; the top two to three layers contain basic information and are tailored to a general audience. On the deeper levels, information becomes more detailed and more technical. When we launch this site, we fully expect that - despite our best efforts - we will not have anticipated every question. We would therefore really like to hear from you! Send us your suggestions on how we can make this site more useful to you. Send us your questions or your comments about the content of the site. We are committed to continually improving this site. If you came to this site looking for specific and non-proprietary information about Procter & Gamble's Fabric and Home Care business in Western Europe, our goal is that you should be able to find that information here. Thank you for your visit."

The site was launched in 2002 and receives approximately 15,000–20,000 visits per month. It has also been receiving generally high marks from users. As a result, P&G is exploring ways to expand the concept to other parts of our business.

STEP 3

STEP 3

CASE STUDY Governance and Transparency
Occidental Petroleum Corporation

Occidental Petroleum Corporation stated in its 2002 Annual Report to Stockholders:

> *"A company's reputation and business practices always have been important to investors, but never more than today. The issue of corporate governance made headline news in 2002 as a series of business failures raised serious questions about financial reporting practices that touched off a crisis of investor confidence. Investor demands for increased transparency and accountability by public companies led to the enactment of the Sarbanes-Oxley Act, overhauling corporate governance and disclosure requirements."*

Occidental was well-positioned when the Sarbanes-Oxley Act was enacted in 2002 because its board of directors had in the early 1990s begun instituting many of the governance policies that were later required. Also Occidental has increased communication of its standing corporate governance policies to reinforce investor confidence and increase shareholder value. One such example was an expanded discussion of corporate governance in Occidental's 2002 annual report, which featured a timeline of the various governance policies and a reference to the corporate web site (www.oxy.com) where all the governance policies have been posted since 2001.

The increased communication has facilitated third-party understanding of Occidental's governance. Several independent organizations, including Standard and Poor's and Institutional Shareholder Services, have ranked Occidental's program highly. In 2004, GovernanceMetrics International awarded Occidental a score of 9.5 out of 10.0 for its strong corporate governance policies and practices.

Stakeholder Relations

The relationship between organization and stakeholder can impact business value in a variety of ways, from destroying it at one extreme to creating it at the other. A productive relationship is one that creates value for both parties. As illustrated in Table 4, value can be created in many different ways.

Productive stakeholder relationships are founded on mutual respect and trust. Respect and trust are based on the prior establishment of credibility and integrity. As with any relationship, establishing credibility and integrity will require an appropriate degree of openness or transparency on both sides. Stakeholders cannot judge whether an organization is acting with integrity and can be trusted unless they have the information necessary to make this evaluation. Therefore, one important goal of your transparency strategy may be to provide the information that stakeholders need to evaluate whether your organization is acting credibly and with integrity.

Table 4: Stakeholders and Business Value

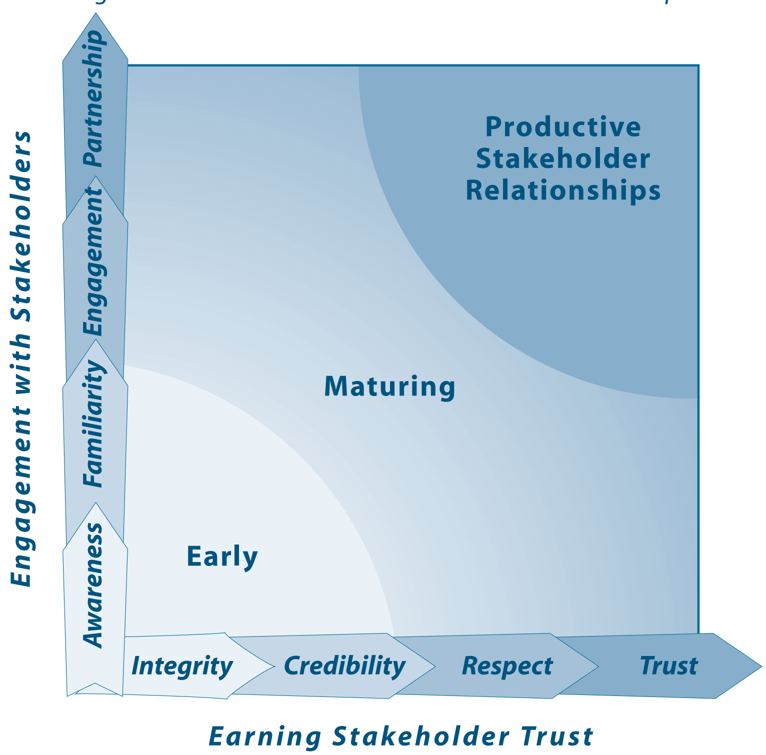
Stakeholders	Potential to Contribute to Value
Investors/Owners/Lenders	Provision of capital, equity and/or debt Financial market recognition and status (reducing borrowing costs and risks)
Employees	Human capital Productivity Reputation
Unions	Workforce stability Conflict resolution
Customers	Brand loyalty and reputation Repeat purchases Collaborative design, development, and problem solving
Supply-Chain Associates	Network efficiencies Collaborative design, development, and problem solving Collaborative cost-reducing routines and technologies
Joint-Venture Partners and Alliances	Strategic resources and capabilities Options for innovation
Local Communities and Citizens	License to operate
Government	Supportive policies Subsidies
Regulatory Authorities	Decreased time to market Enhanced reputation
Private Organizations and NGOs	Enhanced reputation Conflict resolution

STEP 3

"Global citizenship means putting partnerships and community engagement at the center of our work. For Abbott, this involves listening to needs and developing solutions together."

— Miles D. White, Chairman and CEO, Abbott Laboratories

Figure 6: The Path to Productive Stakeholder Relationships



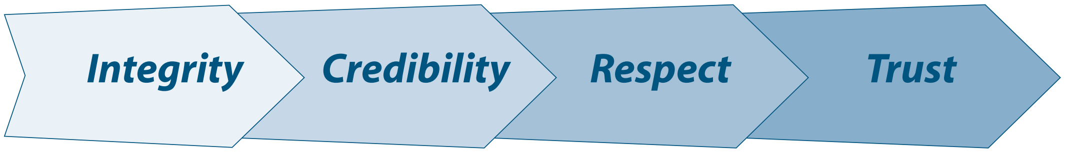
The path to productive stakeholder relationships

Productive stakeholder relationships that deliver mutual value can be defined by the relationship between stakeholder engagement and stakeholder confidence. As illustrated by Figure 6, the higher the level of confidence and the greater the level of engagement, the more productive the relationship with the stakeholder can be. The concepts of stakeholder confidence and stakeholder engagement are discussed in more detail on the following pages.

Developing stakeholder confidence

Trust and credibility have been identified as critical elements for productive stakeholder relationships. Trust and credibility can be thought of as indicators of the degree of confidence stakeholders have in your organization's ability to deliver on its commitments. It follows that a key goal of your transparency strategy may be to develop the confidence of key stakeholders along the continuum illustrated by Figure 7.

Figure 7: Steps to Developing Stakeholder Confidence



The stages along this continuum can be described as follows:

Establish Integrity — Integrity is established by demonstrating adherence to a code of conduct. It requires consistently acting in accordance with the values and goals that have been communicated to stakeholders.

Build Credibility — Once integrity is established, an organization can build credibility. Credibility can be defined as belief on the part of stakeholders that the organization will act in a predictable manner and deliver on its commitments.

Earn Respect — The stakeholder may begin to regard the organization with esteem and act accordingly.

Develop Trust — Finally, trust moves the confidence of stakeholders from "belief in" to "firm reliance upon" the integrity of the organization. This is achieved through a track record of consistent and reliable performance, delivering on commitments and demonstrated accountability.

Stakeholders' opinions will progress along this continuum of confidence only if they determine that a company is following through on the commitments it has made. Stakeholders will rely on whatever information is available to them to evaluate performance. Transparency can play a critical role in this process; consistently delivering credible information and demonstrating performance to stakeholders can build confidence in your organization.

"We firmly believe that going beyond compliance — setting high standards internally and finding innovative ways to meet them — creates competitive advantage. Customers, employees, peer companies, regulators, non-governmental organizations (NGOs), and other global stakeholders have developed a high level of trust in Johnson & Johnson. The long-term value of that trust is part of what has driven our consistent sales growth over the past six decades."

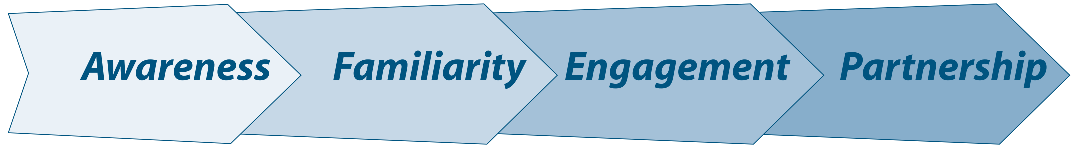
— Johnson & Johnson, "2002 Sustainability Report"

Workshop perspectives

Sincerity of effort was highlighted as a critical success factor for transparency by many participants in GEMI's Transparency Workshops. Sincerity can be demonstrated through:

- Balanced reporting including both good and bad results of issues
- Responsiveness to stakeholder concerns about what is reported
- Demonstrated progress with regard to established goals or valid explanations of challenges and renewed commitments
- Consistency and follow-through on transparency efforts

Figure 8: Levels of Stakeholder Engagement



> *"Among our goals is to foster open, effective dialogue with stakeholders. To make that happen we must listen to our stakeholder needs and share information about our performance that is useful and meaningful so as to better communicate our past, present and future challenges."*
>
> *— Charles Goodman, Senior Vice President, Research & Environmental Policy, Southern Company*

STEP 3

Engaging with stakeholders

The degree of engagement with stakeholders is another critical determinant of a productive stakeholder relationship. Stakeholder engagement can be thought of as passing through a series of levels, each building on the actions and accomplishments of the previous stage, as illustrated in Figure 8.

These levels of engagement can be described as follows:

Awareness — Awareness precedes the accumulation of knowledge that creates familiarity. Awareness of an organization may result from advertising, marketing, or public relations campaigns, or may come about as a result of some event involving the organization that receives press coverage.

Familiarity — Stakeholders will develop familiarity with an organization based on further accumulated knowledge and understanding. As an example, a customer may decide to try your product to be able to compare its performance to others.

Engagement — A stakeholder may decide to engage with your organization based on what they have learned. If what they learn aligns with their own needs and values, stakeholder engagement may be supportive of your organizations goals. For example, in the case of a customer, it may mean committed patronage. In the case of a job seeker, it may mean seeking employment with you. If, on the other hand, there is not alignment between your organization and a stakeholder, the engagement may be a challenge to your organization.

Partnership — For selected stakeholders where engagement leads to mutual respect and trust, a stakeholder partnership may develop. A partnership occurs when a stakeholder and an organization agree to work together toward a set of mutually beneficial goals. For example, because employees are often closely engaged with their organizations, this relationship can frequently develop into a form of stakeholder partnership.

How information is exchanged between the organization and its stakeholder will vary depending on the level of engagement. For example, the initial level of engagement, "awareness," is characterized by a simple, one-way flow of information to stakeholders. As the level of engagement increases, stakeholders may expect the interaction to become more collaborative in nature, requiring a two-way flow of information or responsive dialogue. Ultimately, as the relationship evolves toward a partnership, the expectation may be to provide opportunities for stakeholders to exert direct influence on corporate behavior.

A spectrum of information exchanges is illustrated in Table 5. According to the spectrum, the degree of transparency supported by each type of information flow increases from left to right.

Committing to collaborative- or partner-level exchanges of information with all stakeholders would be highly resource intensive. In a resource-constrained environment, organizations may choose to focus on engagement with stakeholders where significant risks or opportunities exist.

Table 5: The Spectrum of Stakeholder Relationships

	Awareness	Familiarity	Engagement	Partnership
Type of Interaction	**One-way (tell me)** Information flows in one direction. No opportunity for reaction or response.	**Responsive Dialogue** Engaged stakeholders allow opportunities to respond to shared information. Flow of information is two-way.	**Collaborating** Collaborators work together toward a common goal, but may not share equally in the associated risks and rewards.	**Partnering** Partners share in the risks and rewards of their endeavor together.
Associated Activities	Press releases, corporate social and environmental reports that do not incorporate stakeholder input, regulatory reports, web site, socially responsible investment (SRI) questionnaires, advertising	Interactive web site, community forums, annual meetings	Stakeholder advisory panels	Project partnerships
Stakeholder Relationship	Low stakeholder confidence, credibility issues, significant risk	Moderate stakeholder confidence	Strong, supportive relationship, high level of stakeholder confidence, significant level of trust	High level of stakeholder confidence, strong, supportive relationship, high level of trust
(Stakeholder Commitment Matrix Position)	*(High Risk)*	*(Captive, Accessible)*	*(Accessible, Committed)*	*(Committed)*

STEP 3

CASE STUDY **Stakeholder Engagement**
Southern Company

One principle of Southern Company's environmental policy emphasizes partnerships.

> *We will demonstrate our commitment to the communities we serve and the environment through education, partnerships and projects that result in conservation, restoration and increased environmental awareness.*

Southern Company has demonstrated its belief that joint efforts are critical to successfully implementing this principle by engaging with key stakeholders in initiatives built on common objectives. Two such initiatives, launched in 2002, have resulted in environmental improvements, strengthened relationships, and fostered additional collaborative opportunities.

In the first initiative, Southern Company partnered with National Fish & Wildlife Foundation (NFWF) to foster cooperation toward conservation among many groups across the South. As part of this initiative, Southern Company embarked on two, five-year programs with the NFWF:

- The Power of Flight, devoted to conservation projects for Southern birds in their natural habitats, will result in more than $1 million spent annually to protect and expand habitats and improve biological diversity.
- The Longleaf Legacy program will generate more than $8 million to be put toward restoration of the longleaf pine ecosystem.

In a second initiative, Southern Company became a sponsor of The Natural South, a weekly cable television show that explores the South's natural environment in collaboration with many different organizations and individuals. As a sponsor of the "The Natural South," Southern Company is helping to educate people on the region's environment and habitat. The multi-award-winning show, airing on Turner South, presents a forum for environmental and governmental organizations to discuss important topics, including wildlife protection, land management, and conservation. Over three years, this program has engaged more than 100 environmental, state, and federal agencies and has served as a platform for more than a dozen organizations to promote their environmental programs and messages.

These partnerships, built on common objectives, have opened the door to more dialogue and helped build mutual trust. The result: more effective communications, positive interactions, more people exposed to the value of environmental protection, and tangible improvements to the local environment.

Performance Reporting

Corporate environmental reports or, increasingly, broader social, environmental, and sustainability reports are important building blocks of the transparency process. Elevated stakeholder expectations are driving companies to adopt beyond-compliance reporting of nonfinancial performance. Reporting enables the transparency process by providing a window into the organization and a means to disclose corporate commitments and performance.

In addition to meeting a growing demand for accountability and transparency, reporting can help capture the value of key intangible assets, such as management skills, reputation, human and intellectual capital, and the ability to effectively collaborate with stakeholders. These assets generally are not defined in traditional financial statements, yet they can make a significant contribution to business value. When done well, reporting may also provide the information necessary to build stakeholder trust, a valuable organizational asset.

As the primary vehicle for communicating corporate performance to stakeholders, reporting is probably the most tangible and scrutinized aspect of transparency.

External reporting implies adoption of a clear, consistent, and robust approach, including full disclosure of the processes, procedures, and assumptions that underlie report preparation. At the same time, how and what your company reports should be consistent with your organization's commitment to transparency. The activities outlined in this section may help to accomplish both of these objectives.

Adopting reporting principles and objectives that support your transparency strategy

By adopting principles and defining objectives for transparency in reporting, companies are better able to focus their intent and their activities. For example, GRI has defined eleven principles that provide a framework for reporting, with transparency as the overarching principle. These include:

- Providing a balanced and reasonable account of economic, environmental, and social performance
- Reporting information in a way that facilitates comparison over time
- Credibly addressing issues of concern to stakeholders

Although the goal of corporate reporting is to enable transparency, the principles and objectives that you establish to guide this

Workshop perspectives

Not all stakeholders will have transparency objectives that are consistent with those of your organization. In fact, some stakeholders' objectives may be directly at odds with yours. Some of the objectives of transparency cited by NGO stakeholders participating in the GEMI Transparency Workshops included:

- Enable external and internal stakeholders to make informed choices with regard to their relationship with the company
- Empower stakeholders to influence business decisions that affect them
- Fulfill the public right-to-know

Workshop perspectives

Workshop participants discussed the need to separate "data" from marketing and public relations spin. NGO participants noted that, unlike marketing and public relations, transparency requires unfiltered data and information that accurately describes both what is known and not known.

process must also recognize the limitations of reporting. Boundaries may need to be established with regard to the materiality, scope, depth, and cost of reporting for your organization. In establishing these boundaries, it is important to present a rationale that demonstrates that your decision is a considered one and has not been made arbitrarily.

Identifying and addressing stakeholders' expectations and information needs

Corporate reporting may not deliver its full value if it does not address the needs and expectations of the stakeholders for which it is intended. A thorough evaluation of stakeholders should identify both the issues that concern them and the information desired to evaluate performance on these issues. Taking a broader perspective, there seems to be a number of fundamental stakeholder expectations that need to be carefully considered in developing your reporting protocols, including the following:

Reporting quality information — Quality information may be defined as timely, useful, consistent, and accurate information presented in an easily understood format. A more detailed definition of quality information developed by GEMI workshop participants is described in the workshop perspective presented on page 41.

Demonstrating a commitment to improvement — Reports have little value to stakeholders unless they can be used to evaluate corporate performance. This requires, as part of the reporting process:

- Publicly committing to an established set of goals and objectives
- Reporting on performance toward established goals and objectives
- Providing credible explanations for poor performance without trying to justify it
- Providing a reasonable rationale when corporate policy diverges from the expectations of significant stakeholders

Allowing for responsive dialogue — For many stakeholders, the corporate reporting process is about more than providing information. In many cases, you may need to seek stakeholder input throughout the reporting process to fulfill your commitment to transparency. Responsive dialogue is becoming a common expectation among many stakeholders with regard to reporting. A responsive dialogue consists of a two-way flow of information occurring within an ongoing process of communication that provides information relevant to critical customer and other stakeholder interests. Within the context of

Workshop perspectives

Corporate communications about environmental initiatives or policies are most successful when the activity undertaken or policy adopted is put into the appropriate context. Providing context might include:

- Describing the reasons for adopting the policy or taking the action (including whether it is in response to regulatory action)
- Describing how the initiative or policy relates to areas of important environmental concern for the company
- Describing how the overall investment in the policy or initiative compares to the overall environmental resource expenditures of the company

reporting, responsive dialogue can be achieved by engaging stakeholders to help focus and continually enhance the quality of information reported.

Determining key performance indices for measuring progress against commitments

The metrics used to report on environmental and social performance must be relevant and provide meaningful information that demonstrates progress against commitments. A number of external organizations have put considerable effort into developing standardized social and environmental metrics that are intended to deliver this result. Many companies, however, have found it difficult to match these metrics to their own performance commitments and have chosen to develop company-specific metrics for this purpose. In these cases, the challenge becomes one of ensuring that these metrics meet the key expectations of stakeholders for quality, including consistency.

Workshop perspectives

Workshop participants agreed in principle that quality information is:

- Understandable — Information should be presented in a way that is useful and easily understood.
- Timely — Information should reflect current conditions.
- Consistent — Information should be comparable over time for a company and, ideally, across companies.
- Accurate — Information should be free from error and bias, and faithfully reflect activities and processes.
- Relevant — Information should be useful for evaluating a company's activities and should confirm or correct past evaluations. Information should apply to issues that are "material" to the organization and to stakeholders.
- Balanced — Information should provide a balanced account of the reporting organization's performance without bias in selection and presentation of data.
- Verifiable — The quality of information can only be verified if the processes, procedures, and assumptions used in preparing the information are transparent. Reported data and information should be recorded, compiled, analyzed, and disclosed in a way that would enable internal auditors or external assurance providers to attest to its reliability.

"We must be proactive in making our earnings more visible, our financial reporting more transparent, and the characterization of our business clearer than ever."

— Rick Priory, former Chairman and CEO, Duke Energy

STEP 3

CASE STUDY Transparency Metrics

The Burlington Northern and Santa Fe Railway Company (BNSF)

In the face of growing public sensitivity to environmental issues, BNSF perceived an opportunity to emphasize the advantage of rail transportation by proactively communicating with both internal and external stakeholders regarding its environmental performance. The expectation was that, in addition to providing a basis for measuring environmental performance, making environmental performance statistics available would demonstrate that rail has significantly fewer environmental impacts overall than other modes of transport. To this end, BNSF developed two related environmental metrics initiatives:

- Developing a set of environmental metrics
- Publishing an environmental report

BNSF's Environmental and Hazardous Materials Team has been developing a systematic set of metrics to support public environmental reporting and respond to management's emphasis on measurable performance objectives for all railroad departments. BNSF environmental staff participated in several facilitated workshops where they shared ideas, identified major environmental impacts, and discussed existing and alternative performance statistics that could be used to measure the environmental impact of operations. A list of current and possible metrics was developed from these discussions and organized under several broad themes used to structure an internal report.

BNSF continues to work on strengthening its metrics program by developing a set of software tools to facilitate collection of performance statistics and automatically update the internal reports used to communicate these metrics to staff and management.

"Burlington Northern Santa Fe, Providing Environmentally Sound Transportation," was one of the first environmental reports published by a major North American railroad. An interdisciplinary team comprised of staff from various departments, including Environmental, Corporate Relations, Engineering, and Operations was charged with developing the document. The team used statistics from internal and external sources to describe environmental performance and provided specific examples of environmental improvement projects sponsored by the railroad.

BNSF has found the printed report useful to communicate and inform company employees of the railroad's vision and values, as well as to describe BNSF operations to the general public.

Developing data and information capabilities

To produce environmental and social reports that meet the expectations of key stakeholders, corporations are being challenged to collect and manage entirely new sets of data. Creative approaches to this undertaking are necessary to avoid data collection costs that can become prohibitive. Managers need to think carefully about how they might leverage existing data-gathering capabilities to report on social and environmental performance. In those instances where existing capabilities are inadequate, new capabilities need to be established.

Developing an approach to verification of reports

Some companies choose to have corporate environmental and social reports verified by a third party. The expectation is that verification lends credibility to the information reported. For this reason, third-party verification may provide the most value when the reporting process is under intense public scrutiny. However, external verification may not be the right decision for many organizations. Some companies may not be able to justify the cost of hiring a third party and fully supporting an "audit"-like process with internal staff time and resources.

Designing, producing, and distributing the report

Design is not an inconsequential element of report production. There is an entire science built around how to effectively display data so that they impart good information. It may be worth investing in expert advice on data display to ensure your data are conveying the information they should.

Once the investment has been made to produce a report, a variety of approaches to distribution can be adopted. For some companies, the value of the report is not realized until it is actually read by key stakeholders. In some cases this means sending the report to the person or people at each stakeholder organization who are likely to take the time to look at it and provide constructive feedback. Other means of distributing reports may include:

- Posting a down-loadable copy on the company web site
- Making copies available at conferences and trade shows
- Making copies available through shareholder services and corporate communications so that they can be sent out in response to stakeholder inquiries

CASE STUDY Data Mining

Johnson Controls, Inc.

When compiling greenhouse-gas (GHG) data from hundreds of worldwide facilities, Johnson Controls, a leader in facility energy efficiency, recognized a need for a better way to collect and report the data. An examination of how others report revealed that practices range from rudimentary spreadsheets to sophisticated web systems, involving considerable effort to input and validate the data. Discussions with others indicated that many companies shared the same frustration and a need existed beyond Johnson Controls.

Johnson Controls' analysts and engineers looked for an approach to make the process more efficient and accurate while providing multiple benefits. Basically, the process involves direct electronic input of utility data versus the more labor-intensive and error-prone system of manually inputting the data by in-house personnel. Recognition of this very simple approach has allowed Johnson Controls emissions reporting as a new service for its valued customers, especially those operating multiple facilities over wide geographic areas. By utilizing this new approach, Johnson Controls and its customers will save time and money, as well as improve the accuracy of GHG reporting.

STEP 3

Tool #7
To Verify or Not to Verify

The following questions may assist companies in evaluating whether to employ third-party verification of social and environmental reports to enhance transparency:

- What are the expectations of our stakeholders, including investors, with respect to third-party verification of social and environmental reports?
- How might third-party verification strengthen the credibility of our company and our nonfinancial reports?
- To what extent might verification help us better identify and manage reputation risks?
- Could a third-party audit of the management systems, data, and reporting processes identify opportunities for improved business performance?
- What are our standards and requirements for the independence of the third-party verifiers?
- Does the scope and complexity of the audit necessitate the services of one or multiple independent verifiers?
- What is the cost of third-party verification? Do the benefits identified justify the costs?
- If we choose not to verify, how might we strengthen our reporting processes and position for verification in the future?
- If we choose not to verify, should we explain our decision in our report?

Reporting challenges

Although environmental and sustainability reporting is a critical element of transparency, it is still in its infancy. A number of uncertainties, controversies, and challenges have yet to be overcome for the value of this type of reporting to be completely realized. These include the following:

- There is as yet no common understanding of the purpose of environmental and sustainability reporting. Companies must use their own discretion in deciding how a sustainable development report can best meet the expectations of the majority of users.
- There is no agreement on how to describe performance relative to sustainability goals. As a result, reported information is subject to the risks associated with a wide range of interpretations.
- Companies are being asked to report more and more information by an increasing number of stakeholders with different expectations regarding both content and scale.

There are also a number of trade-offs that need to be considered when designing your environmental or sustainability report, including:

- Flexibility vs. comparability — Flexibility is needed to allow report producers to identify those indicators that are relevant for their specific circumstances and operations, and for continued experimentation and learning in reporting. However, customized metrics may make comparability impossible for a limited number of core indicators, defeating the goal of certain stakeholders to attain consistency of information across companies.
- Costs vs. benefits — The cost of reporting may not fall on those who reap the benefits; if overly ambitious, the cost of the reporting process and the report may be prohibitive for some companies.
- Systems vs. reports — A long lead time is necessary to develop data-gathering systems for new parameters. Companies might tend to report on issues with which they are familiar rather than incur the time and expense to create new systems and gather new data.
- Disclosure vs. legal implications — Some companies are wary about how the information they make available will be used. Information can be misinterpreted, and there may be some concern about legal implications of publishing certain information. In addition, report

producers need to ensure protection of competitive or proprietary information.

- Material information vs. "nice-to-know" information — Stakeholders will have differing opinions about what issues and information are necessary to report and what they would like to know. Ultimately, the company will have to determine what information is material and worth reporting. What is material today may be very different from what is material in the future.

In summary, companies must set realistic boundaries and recognize that nonfinancial performance reports cannot be all things to all people. However, within the stated boundaries, companies will be expected to strive to provide open, honest, and credible information.

CASE STUDY Accountability
Georgia-Pacific Corporation

Georgia-Pacific has made a commitment to transparency with the adoption of the following environmental principle concerning community outreach:

> *"Georgia-Pacific will be an active participant in the communities in which we operate, communicating openly about our operations and reporting regularly on our environmental and safety performance."*

In support of this commitment, Georgia-Pacific has engaged with a number of outside organizations to develop credible information for its stakeholders. These efforts include:

- In conjunction with the launch of its first "Corporate Social Responsibility Report" in 2003, the scope of Georgia-Pacific's environmental reporting was expanded to conform more closely to the GRI guidelines for reporting on the economic, environmental, and social dimensions of an organization's activities, products, and services.

- As a member of the American Forest and Paper Association (AF&PA), Georgia-Pacific adheres to the association's environment health and safety principles. Every two years, Georgia-Pacific and the other member companies submit data on its environmental performance. Among other parameters, AF&PA collects company data on paper-mill energy use, water use, biochemical oxygen demand (BOD) discharges in waste water, total suspended solids (TSS) discharges in waste water, and total reduced sulfur (TRS) emissions to the air. To benchmark itself against the industry, Georgia-Pacific used the data collected by the AF&PA to create an environmental "footprint" to allow comparison of its performance for these five parameters with the average of data submitted by other AF&PA member companies.

- Georgia-Pacific is also an active participant in the AF&PA's Sustainable Forestry Initiative (SFI℠), a program that integrates the growing and harvesting of trees with protection of wildlife, plants, soil, and air and water quality. As part of the company's participation in the SFI℠ program, Georgia-Pacific's wood and fiber procurement system has successfully completed a third-party audit conducted by PricewaterhouseCoopers, an international auditing firm, certifying that its wood and fiber procurement operations are in compliance with the program's objectives.

Workshop perspectives

NGO workshop participants indicated that they look at the "total" company and may note inconsistencies between legislative and regulatory advocacy activities and/or political contributions and the policy direction suggested in the report. Perceived or actual discrepancies or inconsistent messages can cause the report to be viewed as "green wash" — a deliberate effort to misinform the public about a company's real intentions.

Workshop perspectives

The following elements were identified as essential to quality performance reporting by workshop participants:

- An executive message from the CEO
- An environmental policy statement (that ideally has been reviewed and approved by the Board)
- Policy statements on material aspects of company performance (e.g., greenhouse gas policy)
- General corporate characterization including number of facilities, employees, products, etc.
- A basis for evaluation (e.g., statement of goals and objectives, sector benchmarks)
- Facility-specific information
- Information on planned investment in environment
- An explanation of rationale behind initiatives
- A credible balance of good and bad news
- Compliance regarded as a minimum standard

STEP 3

Align the Organization

The goal of this activity is to support the transparency strategy by aligning current practice with the corporate commitment. Depending on how different your organization's current approach to transparency is from the adopted transparency strategy, organizational alignment can imply anything from modifying a few existing practices to creating a significant change in culture.

To be effective, the adopted approach to transparency needs to be embedded into the organization by incorporating it into existing roles, responsibilities, and business processes rather than by isolating it in new or separate positions or processes for transparency. Integrating transparency into broader, established business processes can enhance the effectiveness of implementation. Aligning the organization will require:

- Assessing how well current business practices align with the adopted transparency strategy
- Developing and implementing specific initiatives to create organizational alignment

Assessing current alignment

The objective of assessing alignment is to evaluate whether current transparency practices are moving the organization in the direction that has been determined by the transparency strategy, goals, and objectives. Transparency practices will be influenced by attitudes (corporate culture) and activities, and both may need to be assessed. The information gathered during the process of "Understanding the Context" (Step 1 of the **Plan-Do-Check-Advance** cycle) should be adequate to evaluate organizational alignment and develop a plan of action.

Alignment of corporate culture

Successful implementation of the new transparency strategy requires that the organization adopt an appropriate "mindset." If the desired approach is significantly different from the current state, alignment will equate with a change in organizational culture. To accomplish this, the strategic commitment to transparency must become commonly understood. Culture change generally calls for a concerted, long-term effort and is often difficult to achieve. Successful efforts at culture change frequently utilize cross-functional teams involving all levels of the organization, from senior management to the shop floor. An explicit commitment by leadership, well-defined roles, accountability, and effective communication and education are also critical to the adoption of the new approach.

Alignment of transparency practice

In addition to addressing cultural change, organizational alignment requires modifying current transparency-related activities to ensure they are delivering results consistent with the adopted transparency strategies. Should conflicts between current and desired practice arise, the organization can build awareness of the cause of the conflict and modify procedures as necessary.

Aligning Corporate Communications

Organizations communicate with their stakeholders in a wide variety of ways. Key avenues of communication include:

- Internet
- News Media
- Performance reporting
- Meetings and discussions
- Personal Relationships

Control of these avenues of communication is often widely dispersed throughout the organization. This can make it difficult to deliver consistent information about your organization's goals, objectives, and performance. In this case, significant effort may be required to achieve internal alignment.

Step 4 Measure and Report Results

The effectiveness of a transparency strategy can only be evaluated if the results it delivers can be measured and reported. This will require establishing metrics that allow your organization to track progress towards transparency goals and objectives. Progress might be measured along two fronts:

- Implementation: What progress is being made toward implementation of the strategy?
- Effectiveness: How well is the strategy working? Are the goals and objectives established being met?

Implementation

The questions listed in Table 6 can be used to evaluate progress in implementation.

Table 6: Evaluating the Effectiveness of Transparency Strategy Implementation

Possible Metrics	
Leadership and Governance	*Leadership and Governance*
How well has the commitment to transparency been integrated into corporate governance? ◆ Has your board or president made a public commitment to support the transparency strategy? ◆ Is progress against transparency objectives reviewed at board and senior management levels? ◆ Have policies and procedures been developed to codify the commitment to transparency?	
How well has the commitment to transparency been communicated to employees within the organization? ◆ Is staff aware of the corporate expectations for transparency? ◆ How many staff have been trained on any new policies or procedures? ◆ Was the training effective?	
Have transparency considerations been incorporated into rewards and recognition systems?	
Have there been any failures in the transparency process? What is the root cause of these failures?	
How well has the commitment to transparency been communicated to suppliers? ◆ How many key suppliers have been informed of the new corporate transparency strategy? ◆ How many suppliers have been trained on any new policies or procedures?	
How well has the commitment to transparency been integrated into operations? ◆ Have transparency considerations been integrated into business decision-making processes? ◆ To what extent have management and staff incorporated the new transparency guidelines into their work practices?	
Stakeholder Relations	*Stakeholder Relations*
How well do you know your stakeholders? ◆ Have significant stakeholders been identified and stakeholder relationships evaluated? Is there a process in place to review and revise this assessment as needed? ◆ Does every significant stakeholder have a recognized champion within your organization? ◆ Is there a process in place to report any changes in stakeholder champions?	
What impression do stakeholders have of your organization? ◆ Are key stakeholders familiar with your approach to transparency? ◆ Has there been a change in how stakeholders view your organization since the implementation of your transparency strategy?	
Have there been any significant failures in stakeholder relations? What was the root cause?	
Is consideration of stakeholder input and the impact on transparency integrated into business decision-making processes?	
Performance Reporting	*Performance Reporting*
Has anything changed with regard to the reporting of your nonfinancial performance since adoption of the transparency strategy? Why were these changes made? What additional changes are planned?	
Is there a documented process in place to determine what does and does not get reported?	

STEP 4

Table 6, continued

Where To Gather Data
Leadership and Governance
Policies, procedures, and published statements by the board and president
Corporate communications and training departments A staff survey may be an effective way of assessing the internal understanding of your organizations transparency strategy.
Human Resources Department
A process may need to be put in place to facilitate reporting of these types of incidents.
Corporate communications and/or purchasing
A review of management-of-change protocols, budgeting processes, investment decision guidelines, and other similar policies and procedures may be the most effective way of gathering this information. A survey may help assess the staff's understanding and acceptance of the transparency strategy.
Stakeholder Relations
Review of policies and procedures
Stakeholder surveys, focus groups, and individual interviews with key stakeholders can all be effective ways of gathering this information.
A process may need to be put in place to facilitate reporting of these types of incidents.
A review of management-of-change protocols, budgeting processes, investment decision guidelines, and other similar policies and procedures may be the most effective way of gathering this information.
Performance Reporting
This information can be gathered through interviews of staff responsible for generating your nonfinancial performance report.
This information can be gathered through interviews of staff responsible for generating your nonfinancial performance report.

Effectiveness

Table 7 provides examples of metrics that may be helpful in evaluating the results of implementing the transparency strategy and provide a measure of its effectiveness.

"As a company doing business in more than [170] countries, we recognize the importance of being extremely clear about our policies and deliberate in our actions, as we engage in responsible business around the world and live up to our reputation as a good global citizen."

— Carly Fiorina, Chairman and CEO, HP

STEP 4

Table 7: Evaluating the Results of Your Transparency Strategy

Possible Metrics	Where to Gather Data
Stakeholder Relationships: Is your transparency strategy providing the information stakeholders require to evaluate your performance and develop a relationship of trust? ◆ Results of stakeholder surveys ◆ Number, type, and result of shareholder resolutions filed ◆ Ratings received from external groups (including SRI ratings)	Stakeholder surveys can be used to gauge how your transparency strategy is affecting stakeholder relationships. Changes in stakeholder attitude over time may be attributed to your approach to transparency. Surveys should include questions on: ◆ Reactions to performance reports and other information provided to stakeholders by your organization ◆ General attitudes of stakeholders toward your organization
Reputation: How has your transparency strategy helped to build your reputation? ◆ Results of reputation surveys ◆ Awards and public recognition received	Tracking awards and recognition received and the results of reputation surveys can be useful for evaluating changes in reputation over time.
Performance Reporting: How effective is your approach to reporting on nonfinancial performance? ◆ How many reports are published? How many are distributed to stakeholders? ◆ Do you post performance information to your web site? How many "hits" does the site get? How many reports are downloaded? How many questions or comments are submitted? Is there a procedure in place for responding to them? ◆ If you third-party verify reporting of your nonfinancial performance, what are the results of this verification process?	Data related to this set of metrics can be gathered from: ◆ Staff responsible for publishing report ◆ Webmaster managing web site ◆ Report issued by third-party verifier
Media Coverage: Is your transparency strategy affecting the type and quantity of media and Internet coverage your organization receives? ◆ Instances of negative reporting ◆ Instances of positive reporting ◆ Alignment of media message with your internal view of the world ◆ Instances where your organization was surprised by coverage	A number of organizations provide "News Clipping" and "Web Clipping" services. These organizations will scan specified publications as well as key online resources and provide any information they find related to your organization.

CASE STUDY Measuring Performance
3M

3M's annual online sustainability report is one of the primary tools the company uses to communicate environmental, economic, and social information to stakeholders. The report follows the GRI Sustainability Reporting Guideline in an effort to address broad stakeholder interests. However, although the report allows users to submit comments and questions, it was difficult to tell from these comments whether the report was providing an adequate level of transparency and meeting stakeholder expectations.

To help assess how well the report was meeting its transparency objectives, 3M has used several tools, surveys, and evaluations. In 2002, an independent third-party conducted an in-depth evaluation of the 3M 2001 sustainability report. Claremont McKenna College's Roberts Environmental Center ranked the report using the Center's Pacific Sustainability Index (PSI). The PSI index evaluates reports based on both the company's reported performance and on the report's comprehensiveness.

3M's goal is to be a leader in sustainability reporting by developing relevant, transparent, annual reports that continue to improve each year. 3M was hoping to rank among the top 10% of PSI-ranked reports and to gain a better understanding of where there might be opportunities to improve transparency.

Although the Roberts Environmental Center ranked 3M's report within the top 5% of corporate reports, the PSI evaluation also helped identify areas where 3M's sustainability reporting could be improved. The feedback from the PSI and other sustainable development evaluation tools (such as GEMI's Sustainable Development *SD Planner*™) have helped the company prioritize which issues to address or expand upon regarding sustainability programs and performance metrics, as well as in subsequent reports. In particular, the tools have helped identify, through their questions and areas addressed, key and emerging stakeholder concerns.

Step 5 Evaluate, Learn, and Adjust

Evaluate and Learn

Organizational strategy is dynamic. It must be constantly adjusted to address current conditions both internal and external to the organization. Therefore, like any management system, strategy development is an iterative process that requires periodic reassessment of the context and evaluation of results. The following set of questions may be used to guide the evaluation process.

Reassess the context —

- Are there any changes in the external environment, industry, or our company that might cause us to reassess our strategic direction for transparency? Do any regional, state, or local assessments and adjustments need to be made?
- Have best practices for transparency changed recently in our industry and beyond? Are there any key learnings that we should incorporate?
- Have there been changes to the risks, opportunities, and gaps faced by our

organization with respect to transparency?

- Is an update or reassessment of our stakeholders and their expectations needed at this time?
- Are their new opportunities to enhance our relations with existing stakeholders? With new stakeholders?
- Are there any pending legal or regulatory issues that could impact our strategic direction for transparency?

Determine the need to update the transparency strategy —

- Is our strategic position on the Transparency Continuum (Table 3) still appropriate?
- What adjustments need to be made to our transparency strategy to address changes in context?

Evaluate and determine actions necessary to improve performance —

- Are relationships with our stakeholders improving? Have we gained credibility? Is there more we can do to strengthen our relationship with significant stakeholders?
- Are we successfully sharing key learnings and knowledge about transparency throughout the organization?
- Are we delivering on our strategic goals and objectives for transparency? What are the barriers and gaps? What adjustments need to be made?

Update strategies for measurement and reporting —

- Do our reporting and communications strategies take into account current issues and trends? Do key corporate messages need to be updated?
- Are current measurement and reporting processes effective? Are we producing information that is accurate, relevant, and timely? How do we know?

GEMI's *SD Planner*™ may also be useful for evaluating current performance relative to sustainable development aspects and identifying gaps that may need to be addressed. This tool may be found on GEMI's web site: www.GEMI.org/sd.

Adjust Your Transparency Strategy

Based on the results of your evaluation, action can be taken to adjust the approach to transparency where performance is an issue. This will ensure that your organization continues to make progress in achieving its strategic transparency goals and objectives.

Chapter 3 — Looking Ahead: Challenges and Trends

As companies begin to respond to changing stakeholder expectations with regard to transparency, a number of interesting challenges and trends are emerging. Many of these are related to what and how companies are required to report. On the one hand, it sometimes seems as if there is an insatiable demand for information; the amount and type of information being requested by stakeholders can appear boundless. For companies, the challenge is to achieve a practical, cost-effective level of reporting that delivers the type and amount of information that will allow a credible evaluation of performance. Several trends are developing in response to this challenge.

Taking a "Dashboard" Approach to Performance Reporting

A number of organizations, including the U.S. government, are beginning to experiment with a "dashboard" approach to nonfinancial performance reporting. This approach attempts to synthesize data into a few key performance indicators (KPIs) that credibly demonstrate performance relative to environmental and social goals. However, when operating in a climate of distrust, stakeholders are inclined to want raw data that can be used to validate and verify performance claims. Under these circumstances, indicators may be seen as subject to manipulation and interpretation that can skew outcomes. Organizations can take a number of approaches to overcome this challenge:

- Work to build credibility — The higher the level of trust and credibility an organization has with stakeholders, the fewer data will be required for performance evaluation. For organizations that have low credibility and trust with their stakeholders, this would be a long-term goal to eventually begin to ease the reporting burden.
- Establish the legitimacy of KPIs — The key to the legitimacy of KPIs may be an open, collaborative development process that allows for the input and involvement of material stakeholders.
- Third-Party Verification — Developing and using indicators that can be subject to third-party verification allows for an objective evaluation of the resulting report.

Determining Materiality

As with financial reporting, many stakeholders are beginning to expect organizations to report all nonfinancial information that is material to them. However, there is as yet no standard in place for evaluating the materiality of the environmental and social aspects of an organization. Even within the financial community, where materiality is defined in terms of income, assets, and sales (each of which can be readily quantified), the materiality of certain business transactions is often debated. The subjective nature of materiality is even harder to overcome when the impacts being measured are qualitative, as is often the case with social and environmental impacts. Despite this difficulty, materiality is an important concept whose application may add value to the analysis of social and environmental performance. As a result, there is an ongoing effort to define an approach that standardizes the determination of materiality for the nonfinancial aspects of business, such as *Redefining Materiality* (S. Zadek and M. Merme, 2003).

Creating Context

All performance is relative. Unless there is a basis for comparison, it can be difficult to evaluate. For financial reporting, standards have been established to address this issue. In the absence of any overriding principles or standard practices, stakeholders are less certain about their ability to judge performance in the nonfinancial arena.

Several initiatives have been undertaken to create a context that allows comparison between the environmental and social reports issued by various organizations. Although the concept may be a simple one, implementing it has proved to be a tremendous challenge. In the long run, it seems likely that some standardization will apply. For now, it may be worthwhile to carefully monitor developing standards and look for opportunities to participate when you feel your organization can add value.

Survey Overload

With the rapid growth in SRI, companies have been inundated with SRI surveys that gather information used by investment firms to evaluate an organization's performance in this arena. Each of these surveys asks for a slightly different set of data, and many require substantial effort to complete. As a result, responding to SRI surveys has begun to have a significant impact on organizational resources.

In response to this challenge, organizations are beginning to more critically evaluate which surveys to respond to and looking for ways to standardize their responses to multiple SRI surveys. In particular, the SRI World Group has begun to explore creation of a common platform for delivering SRI information that would significantly reduce the effort required to respond to SRI surveys.

An Uncertain Future

A number of initiatives are currently underway to modify the approach to nonfinancial reporting. They include:

- A trend towards a more structured approach to reporting, such as the reporting guidelines set forth by the World Business Council for Sustainable Development (WBCSD) and GRI
- A trend towards codes of conduct and normative developments (GRI, Organisation for Economic Co-operation and Development [OECD] guidelines, UN Global Compact)

It is unclear which of these many initiatives will prevail, but there are likely to be future changes in the expectation placed on organizations with regard to their reporting on environmental and social performance. This makes designing a reporting strategy today much more difficult.

Workshop perspectives

Optimizing the Utility of Regulatory Reporting

Workshop participants raised concerns regarding the efficiency and effectiveness of current regulatory reporting requirements. Ongoing efforts to increase the effectiveness of performance reporting might present an opportunity to improve both streamline regulatory reporting requirements while improving the accessibility and the utility of regulatory data to stakeholders.

Conclusion

Transparency: A Path to Public Trust presents a compelling case that transparency can indeed be designed to deliver business value. This value is derived largely from the fundamental role transparency plays in building public trust, the foundation of a company's "license to operate" and key to realizing and protecting the value of other key intangible assets, including reputation and brand value. Whether an investor, customer, employee, neighbor, or interested NGO, stakeholders increasingly want to know that a company is delivering on its nonfinancial as well as its financial commitments. Demonstrating progress requires sharing information about performance. Although simple in concept, this exchange of nonfinancial information has been shown to be complex, both presenting opportunities and posing challenges. A thoughtful, well-planned approach will ensure that opportunities are realized and challenges are not overlooked.

As a result of the growing demand for information on environmental performance, many EHS professionals find themselves playing a central role in addressing the broader topic of nonfinancial disclosure. There are several trends developing in response to this challenge. Using a dashboard approach can help synthesize data into a few key performance indicators. Determining materiality of different social and environmental metrics can add value. Further, adding context allows for comparison of relevant performance data. This allows stakeholders to be more certain and less distrustful of company reporting.

The intent of this tool is to help EHS professionals and their companies design an approach to transparency that addresses these trends and creates value by building sustainable, productive relationships with key stakeholders based on credibility, integrity, and trust. GEMI anticipates that *Transparency: A Path to Public Trust* will be a guide to better relations with stakeholders and a source of business value.

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Notes

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