

Road to **Credibility 2010**



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Aiming at full transparency, we declare that the following companies, mentioned in Road to Credibility 2010, are or were clients of SustainAbility and/or FBDS:

- Banco Itaú

- Light

- Natura

- Vale

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FOREWORD

Two years after our first 2008 Global Reporters survey in Brazil, SustainAbility is delighted to partner with FBDS to publish the sequel: **Road to Credibility 2010**.

The intervening years have been tumultuous – we have seen global events shake the world’s financial system and everyone who depends upon it. In the aftermath, we see countries and societies embroiled in complex debates about how to restructure a ‘new economy’ that will rise up to be robust, resilient, just, transparent and intelligent in the face of the world’s many sustainability challenges, including climate change and social inclusion. While there are no simple answers, the private sector is playing its part and actively seeking to manage risks and innovate solutions that deliver sustainable value to societies and markets alike.

While Brazil has so far emerged relatively unscathed from the global economic crises of the last two years, it still faces challenges including social inclusion, deforestation and the conservation of biodiversity. While many of the world’s economies have grown rich from the relentless exploitation of their natural assets, Brazil is striving to pursue an alternative model that sees development and sustainability go hand-in-hand – and Brazilian businesses are playing a pivotal role in working with government to this end. The rapid growth of the country’s clean energy markets and the extensive participation of Brazilian enterprises in improving their own sustainability performance – and how it is reported – are testament to where the model is working.

The volume of entrants eligible to participate in this year’s Global Reporters survey – double the number of 2008 – reflects the enthusiasm with which many in Brazilian business are embracing the challenges of sustainability reporting. Although the survey results show a great deal of polarization and room for improvement, we are optimistic that the intrinsic enthusiasm that has driven so many Brazilian companies so far will carry them onwards, in the continuing pursuit of best practice and of setting an example to the rest of the world.

We hope **Road to Credibility 2010** will prove a rich resource for all Brazilian companies and others who are active and interested in working with us to help shape a more sustainable world.

Mark Lee and **Gary Kendall**
Executive Directors SustainAbility

Israel Klabin
President of FBDS Board of Trustees



**Road to
Credibility**

EXECUTIVE SUMMARY

Road to Credibility 2010 is the sequel to our 2008 report on sustainability reporting in Brazil, the first in the Global Reporters series focused on transparency trends in a single nation. It forms the latest publication in SustainAbility's Global Reporters Series, published since 1993.

Raising the game

After analyzing the selected companies, this year, we are pleased to identify **Natura** as Brazil's top reporter, scoring 65% and demonstrating a strong lead over the company in 2nd place, **Sabesp**, with 51%. **Natura's** result improves significantly on its previous top score of 54% in 2008. Looking at the 10th position scores, the results also show an uplift of 7%, from 35% in 2008 to 42% this year. This overall improvement indicates that the top Brazilian reporters are raising their game in a field that saw twice as many entrants this year as in 2008, evidencing a growth and pace of uptake in reporting that outstrips the rest of the world.

Energy and mining presence

The Top 10 includes a disproportionate number of energy companies, reflecting the regulatory requirements and voluntary sectoral initiatives in place to drive sustainability reporting in the Energy and Mining sectors respectively. **Vale**, one of the world's largest mining companies, enters the Top 10 for the first time this year.

Financial casualties

As a whole, Brazil has emerged relatively well from the financial crisis and is enjoying an influx of foreign investment and growth that, in turn, is helping to fuel demand for sustainability information and reporting. Nonetheless, not all businesses were unscathed. For Global Reporters this year, a notable absence was Banco Real. Previously a leader, having secured 4th position in 2008, the company has since experienced a demerger from ABN Amro and further merger with Spanish bank, Santander. In parallel, their reporting proved less robust than in the past when reviewed through our preliminary assessment, causing them to fall behind this year's leaders. However, **Banco Itaú**, which merged with Unibanco, still achieved success and is in 7th place, meaning the sector retains a presence in the Top 10.

Successes still leave room for improvement

Although **Natura** has clearly raised the bar, most of Brazil's companies – even those in the Top 10 – demonstrated only an average overall performance compared to global peers, so there is no place for complacency. The Global Reporters methodology examines four key dimensions of a company's sustainability report (below), and the Brazilian results show that there is clear room for improvement on all fronts beyond 2010.

Figure 1 – Who is who in the Top 10

2010 Ranking	2008 Ranking	Score (%)	Sector	Net revenue (billions of R\$)	Employees	Areas of operation	GRI	ISE ^[1]	DJSI ^[2]	Year of the report
1. Natura	1	65	Cosmetic	4.2	6,260	Brazil + 7 countries*	A+	✓	✗	2009
2. Sabesp	7	51	Sanitation	6.7	15,103	Brazil	B	✓	✗	2009
3. Celulose Irani	8	50	Paper	0.4	1,756	Brazil	A+	✗	✗	2009
4. EDP	6	49	Energy	4.6	2,008	Brazil	A+	✓	✗	2009
5. Vale	-	46	Mining	24.4 ^[3]	140,600	Brazil + 33 countries**	A+	✗	✗	2009
6. Coelce	3	45	Energy	1.9	9,150	Brazil	A	✓	✗	2008
7. Itaú	10	44	Banking	608.3 ^[4]	102,000	Brazil + 11 countries***	A+	✓	✓	2009
8. Ampla	3	43	Energy	2.5	8,272	Brazil	A	✗	✗	2008
9. Even	-	42	Construction	0.8	1,174	Brazil	C	✓	✗	2008
10. Light	-	42	Energy	5.4	3,694	Brazil	A	✓	✗	2009

[1] Corporate Sustainability index, from BM&FBovespa

[2] Dow Jones Sustainability index

[3] According to USGAAP

[4] Total consolidated assets

* Americas and Europa

** Around the world

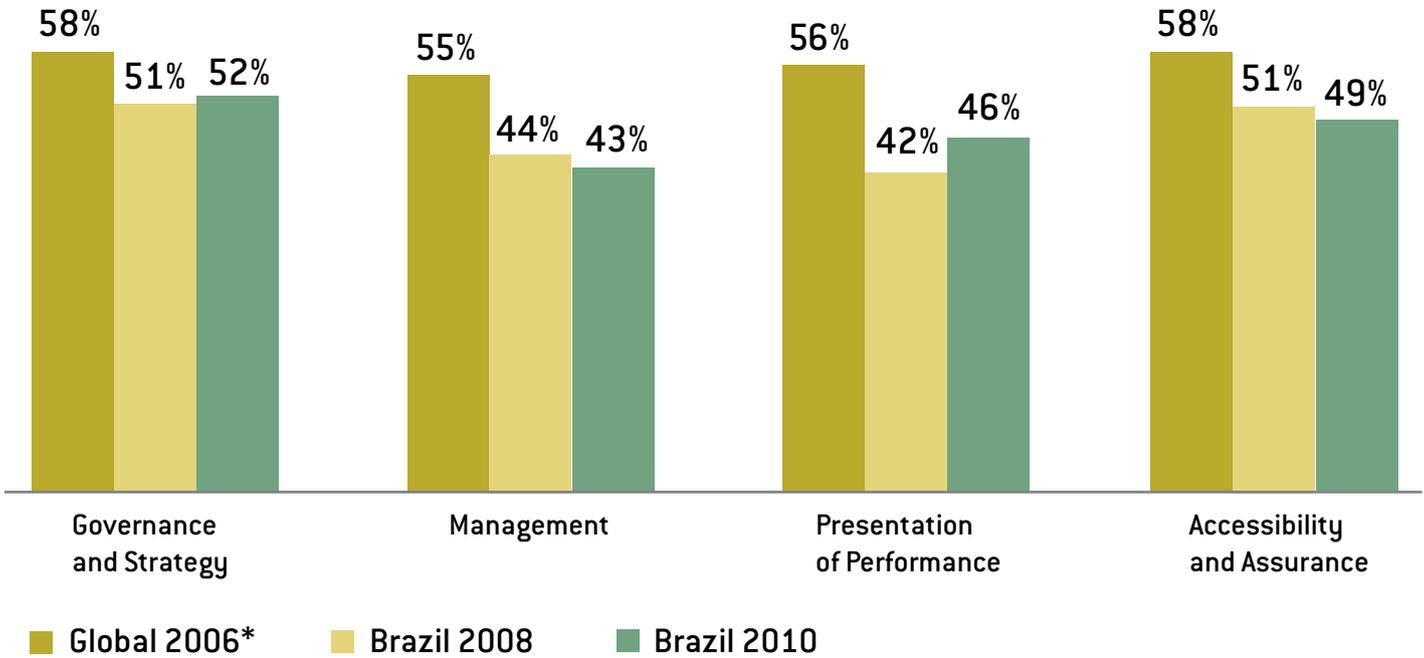
*** Americas, Europe and Asia

“In the future, we expect companies to discuss issues in their reports, such as climate change and use or loss of biodiversity, due to their potential impact to the business strategy. Equally important is the beginning of the evaluation of environmental goods and services by the companies, used in their productive process, in order to measure their contribution to a sustainable and low carbon economy.”

Cristina Montenegro

<p>Governance and Strategy</p>	<p>Reporters achieved their highest scores in this area, although there is still room to improve the rigor of many materiality appraisals to identify a focused handful – rather than overwhelming flood – of top priority issues.</p> <p>Many companies could provide more balanced reporting of their successes and failures, and could demonstrate better how sustainability is being integrated into their core business to protect, enhance and create value.</p>
<p>Management</p>	<p>Scores were poor here in 2008 and marginally worse in 2010. Reporters need to give continuing care and consideration to reporting how their organizations function and engage – internally and externally – to enable the implementation of their sustainability strategies and to ensure continual learning, adaption and improvement.</p>
<p>Presentation of Performance</p>	<p>Although the average score for this dimension represents a little improvement over 2008, there is a great deal of polarization in the results. While many reporters have improved how they report performance on material issues, they could still do better in reporting on targets, whether targets are achieved and lessons are learned.</p>
<p>Accessibility and Assurance</p>	<p>There was incredibly widespread diversity of scores in this area, with Natura securing 81% against a lowest Top 10 score of 31%. There are some very good practices in Brazil, including the use of stakeholder assurance, but there are some reporters who still provide no assurance whatsoever, and this needs to improve to build and safeguard credibility.</p>

Figure 2 – Average scores per section



* Global Reporters 2006 ranked the Top 50 reports around the world

enthusiasm and numbers with which it is entering and pursuing the area of sustainability reporting. However, the pace of growth and volume of new entrants also means that the quality of performance is extremely polarized – at this stage, there are few mature reporters in the field headquartered in Brazil. This situation is not entirely negative and makes for a rather exciting and dynamic reporting environment.

The challenge for many Brazilian reporters consequently seems to be twofold. On the one hand, companies need to continue developing and consolidating good and best practices and learning from – and contributing to – global reporting leadership elsewhere in the world. On the other hand, as reporters mature, they need to avoid conservatism and retain a sense of passion along with the ability to push boundaries and create new best practices.

Sustainability reporting – as with all modern communications – finds itself in a global digital age

where the pace of change caused by new media, social networking and advances in technology is unprecedented. The implications are still unfolding before our eyes, but one thing is for sure: sustainability reporting will transform many times over in years to come, and only those companies which remain open-minded, fleet of foot, creative and adept in their reporting strategies will thrive.



INTRODUCTION

This publication comes as a sequel to our original 2008 survey of sustainability reporting in Brazil. The intervening two years have seen dramatic and unforeseeable highs and lows in the world's financial system and in the fates of national economies and businesses. Debates about critical sustainability issues – climate change, water, biodiversity, food security, poverty and inequality – have been at the fore. Among a multitude of events, we have seen governments increasingly put 'green deals' centre stage in economic recovery efforts; we have witnessed extreme weather bring unprecedented disaster to parts of the world; we have watched the IPCC¹ struggle with challenges to its scientific integrity; and we have seen the climate change discussions at Copenhagen fall desperately short of expectations and needs.

In the midst of this maelstrom, however, Brazil has written its own script. While most of the developed world worries about excessive debt and stunted economic growth, after a short and relatively shallow recession, the Brazilian economy (at least as this report went to print) is reportedly flying; growth forecasts are in the region of 8%; unemployment is at record lows; its banks are well capitalized; and retail sales and consumer confidence are on the rise alongside an influx of foreign capital². Although the country still suffers vast inequality, it is nonetheless realizing improvements against certain key indices – such as the GINI co-efficient for inequality and also regarding illiteracy rates³.

History shows that growth and development rarely come without harsh consequences for the environment, and Brazil still struggles with deforestation and rising energy demand. Nonetheless, it is demonstrating global leadership and commitment in many areas of sustainability. In a recent media interview⁴, Dr Gilberto Camara, head of Brazil's National Institute for Space Research (INPE), describes his country as 'the natural knowledge economy'. He explains how the application of insight and technology are boosting the value of many of the country's basic commodities and cites biofuels as an example of where Brazilian research (in this case into sugar cane ethanol and biodiesel production) leads the world. On other fronts, nearly half the country's energy now comes from hydroelectric power and biofuels, and flexfuel cars are responsible for 90% of sales of new cars in Brazil. According to UNICA – the ethanol industry association – the production and use of ethanol is responsible for a net reduction of 600 million tons of CO² equivalent, from the 70s onward. The country also claims to be on track to meet its 2020 GHG emissions target, key to which is stopping deforestation in the Amazon – source of most of its emissions – and where progress is being made.

In this context of policy commitment and entrepreneurial investment in sustainability, it should not be surprising that Brazilian companies are outstripping the rest of the world in the publication of sustainability reports. In 2009-10, almost twice the number of

1. <http://www.ipcc.ch>

2. Financial Times – 'Good fortune helps strengthen Brazil's economy' – 28 June 2010

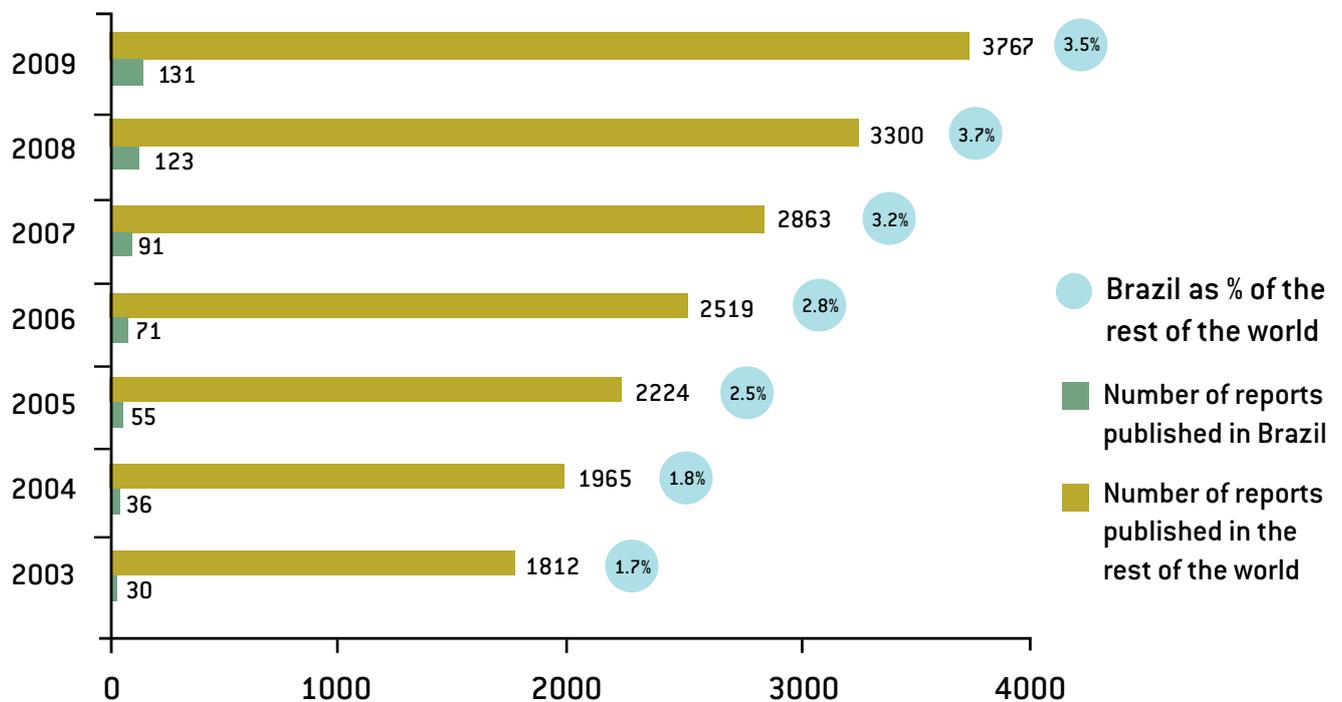
3. Source: PNAD/2009

4. Guardian – 'Can Brazil become an environmental superpower' – 5 August 2010 <http://www.guardian.co.uk/environment/2010/aug/05/brazil-environmental-superpower>

Brazilian companies published sustainability reports compared to the preceding two years (Figure 3). At this year's Readers Choice Awards, organized by the Global Reporting Initiative⁵ (GRI), Brazilian companies – **Natura, Vale**, Banco do Brasil and Banco Bradesco – won all the awards and represented a staggering 73% of nominated companies, leaving corporations from India (10%), China (2%), the USA (5%) and the rest of the world (8%) out in the cold (Figure 4). This surge in Brazilian reporting is almost entirely home grown, including only a small fraction of reports from subsidiaries of global brands headquartered elsewhere.

The list of reports eligible for consideration in this year's survey almost doubled that of 2008, rising from 76 to 137 reports, and representing many of the country's diverse economic sectors. Almost a third of all reviewed reports came from the energy sector and nearly a tenth from the financial sector.

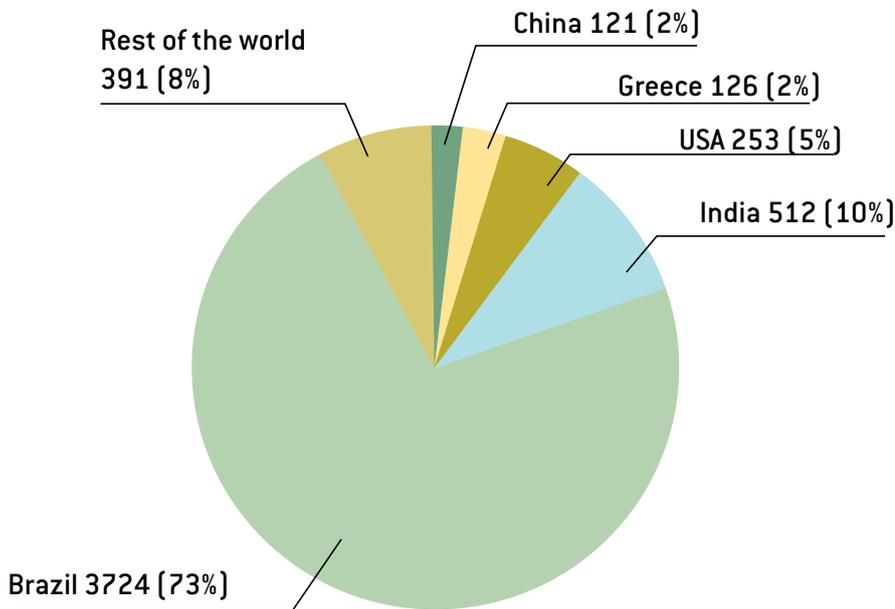
Figure 3 – Numbers of reports published



Data from this table provided by CorporateRegister.com

5. <http://www.globalreporting.org>

Figure 4 – Participation in 2010 GRI Readers Choice Awards



Given the volume, growth and vigor of Brazilian sustainability reporting over the last two years, **The Road to Credibility 2010** follows our 2008 publication at an especially illuminating time and serves to:

- Rank the Top 10 leading reporters in Brazil and submit them to rigorous analysis,
- Appraise how companies have improved their transparency and accountability since 2008,
- Highlight how Brazilian reporters can keep raising their game, and
- Identify opportunities for mutual learning between leading global reporters and their Brazilian counterparts to help advance global best practice.

The remaining sections of this report present:

- Reporting Drivers – the perfect storm of incentives and initiatives encouraging reporting,

- The Survey – the report selection process and survey methodology,
- Results highlights – Top 10 and Highlights,
- Results in Depth – insights to performance on key dimensions of reporting,
- Conclusion and Recommendations.

REPORTING DRIVERS: THE PERFECT STORM

Many of the drivers for sustainability reporting in Brazil that we identified in 2008 still stand today; in certain instances, they have intensified.

- **Foreign investment:** Brazil continues to be seen as a pre-eminent business opportunity and has witnessed a growing influx of foreign investment: from WalMart and Carrefour in the retail sector, to Cargill and Bunge in agribusiness, to the verifiable multitude of foreign entrants – such as Veolia, EDP and Gas Natural – which have poured into the country's rapidly expanding power generation sector. Such investors are acutely aware and concerned to understand the sustainability context, risks and opportunities related to their business interests and look to corporate sustainability reports and SRI⁶ rankings as key sources of information and insight.

- **Brazilian business overseas:** Brazilian multinationals are increasingly active in global markets. In recent years, **Vale** (one of the world's largest mining companies) has expanded its presence in Canada, Australia and elsewhere, while Gerdau (one of the world's largest steel makers and producers), AmBev (beverages) and JBS (the largest Brazilian multinational in the food industry) are all growing their presence in the US. As part of this process of globalization, Brazilian companies are both learning from and contributing to a raft of global best practices, including sustainability reporting and the role it can play in delivering and creating value for shareholders and society.

- **The Global Reporting Initiative (GRI)** continues to have substantial influence, with a large number of Brazilian

reporters working to meet its requirements. The GRI's impact and relevance has been further enhanced by the recent or pending publication of a series of sector supplements relevant to electric utilities, financial services and mining and metals companies. An oil and gas sector supplement is also the subject of a current working group. Organizations looking to improve the impact of their reporting first need to focus on the GRI principles. Yet the specificity of the GRI frameworks and the presence of a local representative office are widely viewed as having had a positive impact on awareness and quality of reporting in Brazil. The GRI website⁷ identifies 17 Brazilian companies reporting against their guidelines in 2006, rising to 47 companies in 2010, and the number is increasing.

In terms of particular Brazilian sectors, a combination of factors has worked to create an environment where sustainability reporting is now almost a given component of doing business for many. The energy sector in particular is highly visible among Brazilian reporters, and the mining and financial sectors are also active. The factors driving activity in these sectors are manifold and include:

- **Regulation as a pivotal driver:** In the energy sector, since 2001, the regulator ANEEL (Agência Nacional de Energia Elétrica) has required all energy companies to report on their sustainability initiatives. In particular, all Brazilian electric utilities must publish annual social and environmental reports compatible with both Ethos⁸ and GRI Guidelines⁹.

6. SRI stands for Socially Responsible Investment

7. <http://www.globalreporting.org/Home>

8. <http://www.ethosfund.ch/e/ethos-foundation/default.asp>

9. For more details, please see ANEEL, Despacho nº 3.034, as of 21 December 2006 and Resolução nº 444, as of 26 October 2001, at <http://www.aneel.gov.br/cedoc/dsp20063034.pdf>

- **Sector guidelines and award schemes** have also made an impact. In the energy sector, ABRADÉE, the Associação Brasileira de Distribuidores de Energia Elétrica, collaborated with Ethos¹⁰; Vox Populi and FIPE introduced an award for social responsibility and management quality nearly a decade ago, which has played a clear role in driving awareness and uptake of reporting. The award is highly interactive and based on a process of sharing best practices through regular seminars that focus on aspects such as social and environmental reporting, customer satisfaction and management quality.

- **The International Council on Mining & Metals**¹¹ (ICMM) collaborated with GRI on the (recently released) Mining & Metals GRI Sector Supplement. For the last decade, ICMM has recommended its own sustainable development framework, including public reporting and independent assurance. In 2010, for the first time, ICMM conducted an assessment of the progress made by each member company against its performance commitments and further improvements may be expected as a result.

- **Self-regulation** is the main driver for reporting in the financial sector, along with related pressure to demonstrate accountability in the wake of the global financial crisis, even though Brazil's banks fared comparatively well, with none facing bankruptcy and none requiring significant government funding to survive. Nonetheless certain mergers and acquisitions have seen the quality of reporting decline for certain institutions and this is discussed further in the results section.

Against this backdrop of foreign direct investment, overseas growth, the evolution of standards, regulation and sector-specific commitments to sustainability

and reporting lies the incredibly vibrant wealth, youthfulness and biodiversity of Brazil, its people and its unique natural landscape. As a country – perhaps more than any other – Brazil is the epitome of society that is hungry for growth and opportunity within a natural environment that the whole world wants and needs to see flourish and develop in sustainable ways. If each corporate report is a lever for achieving a sustainable future for Brazil as a whole, then there is certainly place for optimism.

10. The partnership between ABRADÉE and Instituto Ethos goes back to 2000, with the objective of disseminating social responsibility. The electric utilities were the first to develop an industry sector set of indicators, together with Ethos, back in 2000.

11. <http://www.icmm.com>



THE SURVEY

The Global Reporters program – including this report – has followed a consistent, rigorous and transparent process for assessing quality in reporting. In **Road to Credibility 2010**, it is applied to ensure the most complete and professional assessment possible of Brazil's reporting landscape.

Methodology

The Global Reporters report assessment methodology has been developed over 15 years and uses a range of 29 criteria to test the quality of reporting and how well sustainability issues are taken into account in business processes and decision-making.

The four key dimensions explored by the methodology's criteria are:

- Governance and Strategy (11 criteria),
- Management (9 criteria),
- Presentation of Performance (5 criteria),
- Accessibility and Assurance (4 criteria).

Each of these four dimensions and the associated criteria are discussed in more detail in the results section, where we provide in-depth discussion of the overall results. Each report's performance against the methodology's criteria is carefully evaluated and scored from 0 (Nothing) through to 4 (Integrated Reporting), as follows:

0 = Nothing	No information or insufficient to demonstrate the company understands or takes the criterion seriously
1 = Sketchy	Report demonstrates some recognition of the criterion and attempts to present it in a serious way, but is not systematic
2 = Systematic	Coverage demonstrates a serious approach and attempts to present information comprehensively, but is incompletely developed or not fully applied across the company's divisions or issues
3 = Extensive	Coverage is serious and systematic, with no major gaps in coverage, presentation or interpretation, but fails to make explicit links to core business decision-making
4 = Integrated	Reporting is serious, systematic and extensive, with clear links made between sustainability and core business processes and performance

NB. Scoring is sequential. For a report to merit a score, it must also have met the requirements of preceding scores.

While the methodology is not an analysis of sustainability performance, it provides an appraisal of the quality of sustainability management and therefore sheds light on performance.

Independence, credibility and quality control

An independent, expert Advisory Group oversees the majority of the survey process to ensure impartiality. Members of the 2010 Advisory Group include:

Celso Funcia Lemme	Associate professor of the COPPEAD Graduate School of Business ¹² , Federal University of Rio de Janeiro (UFRJ)
Cristina Montenegro	Representative of United Nations Environment Program (UNEP) ¹³ in Brazil
Glaucia Terreo	Representative of the Global Reporting Initiative (GRI) ¹⁴ in Brazil
Hélio Mattar	President Director Instituto Akatu for responsible consumption ¹⁵
Pedro Mäder Meloni	Principal Advisor, Latin America and Caribbean, IFC – International Finance Corporation ¹⁶

12. <http://www.coppead.ufrj.br/engl/>

13. <http://www.unep.org>

14. <http://www.globalreporting.org/home>

15. <http://www.akatu.net>

16. <http://www.ifc.org>

The Advisory Group provides review and challenge at each step of the methodology.

To further ensure impartiality and quality control, every report in the final Top 10 is evaluated by at least two trained researchers from FBDS and one from SustainAbility to guarantee robustness and consistency of assessment and scoring.

Corporate sponsors have no role in the survey, and SustainAbility and FBDS fully disclose any past or present client relationships in the Top 10.

Report selection

The initial long-list of 137 companies was identified from a review of corporations which – due to their size and commitment to international sustainability initiatives – have an incentive to report¹⁷. To be eligible, all reports had to be published in 2009 or before 2 July 2010. The long-list was then subject to two sets of review against a selection of core criteria drawn from the Global Reporter’s methodology.

1. The first review filtered reports according to their approach to the specific criteria of: issue identification and prioritization; values, principles and policies; management procedures; stakeholder engagement; and measuring sustainable development performance.
2. A second review allowed a further filtering according to the specific criteria of: top management statement, target setting and assurance.

The Advisory Group went on to approve a full shortlist of 29 reports. Researchers then reviewed the range of shortlist scores and focused on the top 50%, which comprised 16 companies (some of which achieved identical scores). The identified 16 companies were subjected to the full Global Reporters Methodology to identify the Top 10.

“The integration of annual and sustainability reports is more than a simple merge of two documents. It aims at the integration of sustainability performance and financial management and represents a huge challenge today.”
Glauca Terreo

17. The participation in the following lists was considered as criteria: CorporateRegister.com, use of GRI framework, ISE 2009, DJSI 2009/2010, Guia Exame de Sustentabilidade 2009, Época Negócios – As 10 mais em RSA, iBovespa 2010, Revista Valor – As campeãs – edição 2009, IGC 2010, PRI 2010, Princípios do Equador, Prêmio Abrasca 2009, CR Reporting Awards 10, GRI Readers Choice Awards 2010, Prêmio Eco 2009, PSQT 2008, CDP 2009, GHG Protocol (2008/2009).

Spotlight: Integrated reporting

Integrated reporting is a concept that sustainability reporters and accountants have been exploring for a decade or so. This year saw a renewed interest in the topic, with South Africa officially mandating it, and with the GRI and the Prince's Accounting for Sustainability Project working together to form the "International Integrated Reporting Committee"¹⁸.

Historically and in its strictest sense, integrated reporting has involved combining financial and sustainability reports into a single publication. Increasingly, however, the concept is shifting, as companies test new ways of broadly incorporating sustainability information into their financial disclosures as well as into other forms of communication. Among Brazilian companies, integrated reporting is not a new or foreign concept. **Natura** has published an integrated report since 2002. Banco Real Santander has also explored this approach, with less success.

Fundamentally, integrated reporting requires a holistic approach to managing sustainability and financial performance. As such, there are many paths toward greater integration. For example:

- At the most basic level, an organization can bring its editorial teams for the financial and sustainability reports closer together by organizing preliminary meetings that discuss how topics will be addressed effectively in both publications and potentially to share a launch date (e.g. of the Annual General Meeting).
- Further, the CFO can lead an internal discussion on how to merge the sustainability and financial materiality processes (through which all issues that have a material impact on the company's long term health are identified and monitored).
- Key sustainability indicators can also be audited to the same degree of confidence as financial indicators¹⁹.

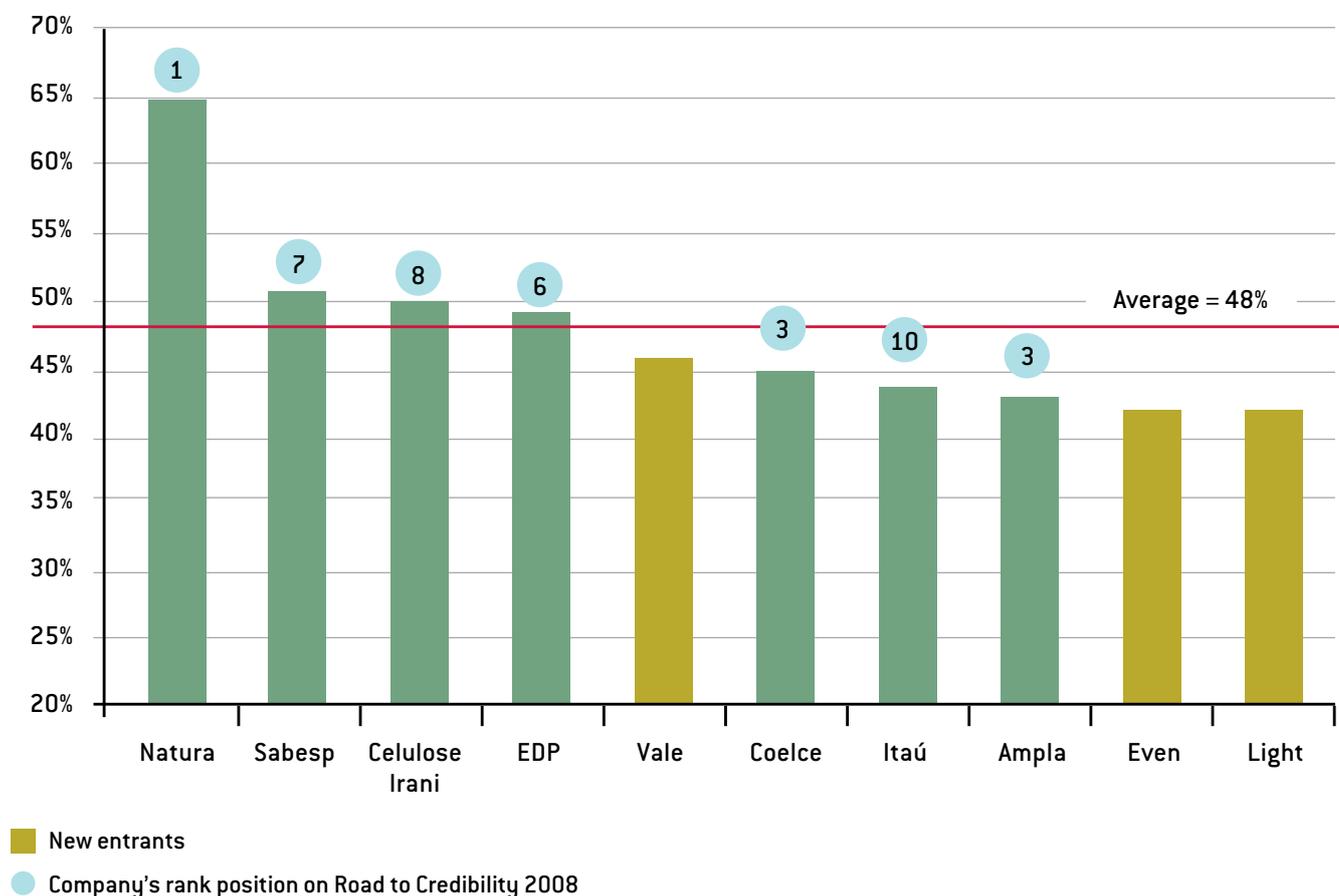
In summary, financial and sustainability reports tend to have evolved with distinct and different purposes in mind. Each is typically designed to address a different audience: the financial community or the socio-environmental watchdogs. Each often communicates a similar message about corporate performance, but in different ways: financial reports tend to be formulaic and backward looking, compared to the intrinsic need for a sustainability report to make sense of today's activities in the context of the future. Ultimately financial and sustainability reporting need to be fully complementary – and maybe actually integrated – if the world and its markets are to deliver any real traction on sustainable development and the associated value to be created or destroyed.

18. <http://www.integratedreporting.org/> Broad group of industry experts and practitioners with the mission of setting up guidelines in the practice of integrated reporting

19. This includes ensuring that levels of control are Sarbanes-Oxley compliant for the selected indicators, as Novo Nordisk, a Danish pharmaceutical company and early pioneer is currently implementing

RESULTS: HIGHLIGHTS

Figure 5 – The Top 10 ranking



Raising the game

The Top 10 range from a high of 65% (**Natura**) to a low of 42% (**Even** and **Light**), with an average score of 48%. While the average represents only a 1% increase on 2008, this belies a marked 11% improvement by **Natura** on its 2008 performance (when it also topped the table) of 54%. Similarly, **Even** and **Light**, joint 9th this year,

delivered a score 7% higher than the 35% notched up by **Banco Itaú**, which secured 10th place in 2008. Overall this indicates a raising of the game, although **Natura** has clearly broken away from the rest of the field this year, with a 14% lead on 2nd place.

Newcomers

This year's Top 10 includes three newcomers: **Vale** (one of the world's largest mining companies), **Light** (one of the largest energy distributors in the state of Rio de Janeiro) and **Even**, a construction company that has secured its position on the back of its first ever sustainability report. In 2008, **Sabesp** and **Celulose Irani** were similarly newcomers to sustainability reporting (ranked respectively 7th and 8th) and have since gone on to consolidate their performance and secure 2nd and 3rd places this year.

Up or Out since 2008

In addition to **Sabesp** and **Celulose Irani**, **Natura**, **EDP** and **Itaú** were also present in the 2008 ranking, and all improved their scores this time round. **Coelce** and **Ampla** made it to the Top 10 again, although their absolute scores fell markedly. And three of the 2008 Top 10 failed to secure any ranking at all this year:

- Suzano Petroquimica (previously 2nd with 53%) has been subsumed by Petrobras and no longer exists as a separate entity;

- Banco Real (previously 5th place with 51%), which has de-merged from ABM Amro and been purchased by Spanish bank Santander, did not make the shortlist;

- Bunge (previously joint 8th place with 41%) made the shortlist, but not the final Top 10.

Fast followers

Even though there are significant differences, hot on the heels of the Top 10 are the remaining 19 companies from the shortlist (Figure 6). All indications are that any one of these fast followers could find themselves as contenders for the Top 10 in future.

Figure 6 – The 19 companies of the shortlist that are not part of the TOP 10, ordered alphabetically by sector

Agribusiness	Bunge
Aviation	TAM
Energy Production and Distribution	Cemig
	Coelba
	Copel
	CPFL Energia
	Eletropaulo
	Tractebel Energia
Financial Services	Banco do Brasil
	Bradesco
Healthcare	Unimed-Rio
Media	Grupo Estado
Mining	Alcoa Alumínio
	Anglo American Brasil Ltda
	Samarco Mineração
Oil and Gas	Petrobras
Paper and Pulp	Fibria Celulose
	Klabin
Water and Sanitation	Corsan

Sectoral insights

In general, the sectoral distribution of the shortlist reflects the distribution of total reports in Brazil.

- Utilities – which include the energy, water and sanitation sectors – account for a significant number of reports in Brazil and the shortlist. Basic materials are comparably significant and include mining companies, such as **Vale**.

- A disproportionate number of energy companies are evident in the Top 10 (**EDP, Coelce, Ampla** and **Light**) and the shortlist, and represent 34% of all entrants. This reflects the success of regulatory and sectoral drivers, as well as high levels of activity and growth in this field. Three of the four Top 10 energy reporters are Brazilian subsidiaries of Spanish and Portuguese multinationals, respectively **Ampla** and **Coelce** (part of Endesa), and EDP Energias do Brasil (part of **EDP**).

- On the consumer front, sustainability reports in Brazil are slightly under-represented compared with other countries and in spite of ongoing leadership by **Natura**.

- While three banks made it to this year's short-list, only **Itaú** made it to the Top 10.

Figure 7 – Report production from the 10 basic industries²⁰



Data provided by CorporateRegister.com

20. As a definition of the Industry Classification Benchmark, the 10 basic industries are: Oil and Gas, Basic Materials, Industrials, Consumer Goods, Health Care, Consumer Services, Telecommunications, Utilities, Financials and Technology. http://www.icbenchmark.com/DOCS/Structure_Defs_English.pdf

Missing contenders

Sectors such as retail, telecommunications and infrastructure development are absent from the shortlist. This is disappointing as each of these sectors play a pivotal role in Brazil:

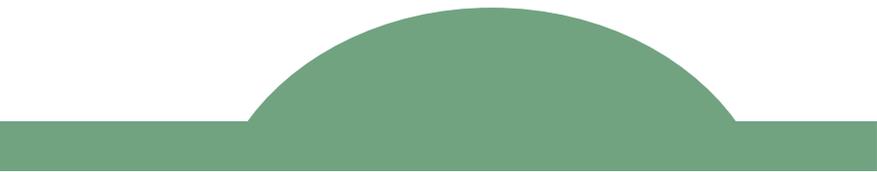
- The retail sector has great potential to encourage sustainable practices within its value chain and to champion sustainable consumption. Many retailers in other international markets – from WalMart to Nike, IKEA and Marks & Spencer – are forging leadership positions in this area, serving to build both their brands and customer base. Approaches include working with suppliers to improve the sustainability of their products; articulating goals and strategies that put sustainability at the heart of their business and brand, and actively marketing their sustainable retail offer to customers in order to build understanding and drive purchasing decisions.

- The telecommunications sector similarly has significant contributions to make to sustainable development and social inclusion. While global telecommunications companies are high profile and active in Brazil, they tend to publish reports from (and focused on) their home countries, without providing the necessary context to be interpreted by Brazilian audiences. Meanwhile, home-grown Brazilian enterprises are still to make their mark in this sector. The impact of the sector telecoms regarding digital inclusion and enabling access to knowledge and networks – via the internet and other means of telephony and digital media – is an essential part of empowering people to be sustainable.

- Infrastructure development companies have a substantial and lasting impact on society and the environment. However, as many of these companies are privately held and not listed on the stock exchange, with no obvious consumer interface, the conventional drivers for reporting and accountability can be somewhat absent. Nonetheless experience elsewhere suggests that scrutiny of such enterprises can be intense and that a strong practice of sustainability reporting can enable an enterprise to develop and deliver project plans that are more robust for actively engaging with sustainability concerns and stakeholders.

Keeping the passion

A distinctive characteristic of this year's Top 10 is the largely average nature of the overall scores, which – excluding Natura – range between 42% and 51%. These median results, and the median distribution of scores for individual criteria, reflect adequate coverage by most Brazilian reporters of most bases. It suggests that the companies are learning what they need to do well and, over time, improving and consolidating approaches to make their reports more complete. However, at the same time as reporters get set in their ways and as reporting systems become more complex and established, a risk of creeping conservatism emerges. Established reporters are often less likely to experiment and push boundaries, and so tend to produce reports that cover all bases, are satisfactory and/or incrementally better, but lack inspiration and creativity. A challenge for maturing reporters is to retain and cultivate their passion and inspiration in order to innovate new and best practices that will shape the future of sustainability reporting in radical and transformative ways.



RESULTS: IN DEPTH

Road to Credibility 2010 uses the Global Reporters methodology to review all Top 10 reports against specific criteria to do with how successfully they articulate sustainability against four key areas: governance and strategy; management; presentation of performance, and accessibility and assurance. This year saw marginal differences in average scores compared to 2008, both positive and negative (Figure 8). The average nature of the scores belies some significant highs and lows within each category, discussed further in this section.

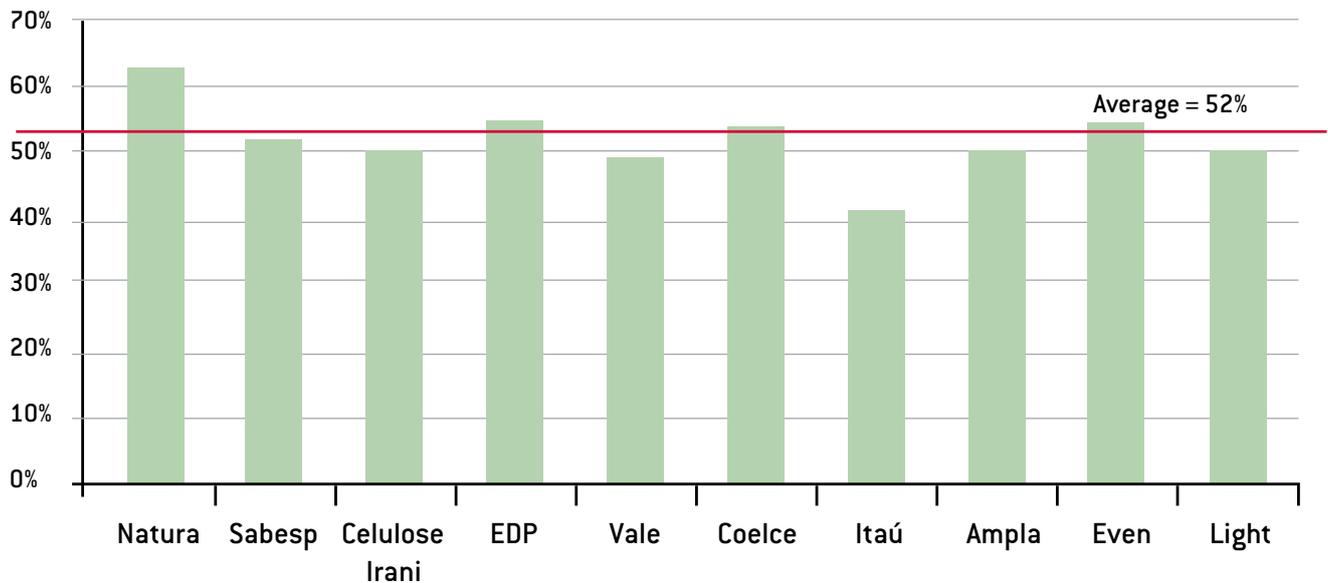
Figure 8 – Average scores on key criteria

Section	2010 scores	2008 scores
Governance and strategy	52%	51%
Management	43%	44%
Presentation of performance	46%	41%
Accessibility and assurance	49%	51%
Total average score	48%	47%

GOVERNANCE AND STRATEGY

Reporting on governance and strategy is essential if readers and stakeholders are to understand a company's vision and how it is being governed and guided for success. The methodology evaluates all reports against 11 criteria to test how effectively each company articulates its overall direction, strategy, critical issues and governance in relation to sustainable development. Specific criteria analyze the 'tone at the top' and whether it is sufficiently convincing and ambitious, and test the alignment of sustainability approaches with core business strategy.

Figure 9 – Average scores of the Top 10 in governance and strategy



Getting better

The Top 10 reports achieved their highest scores in this area, with **Natura**, **EDP**, **Coelce** and **Even** all doing well. Practices worth highlighting include:

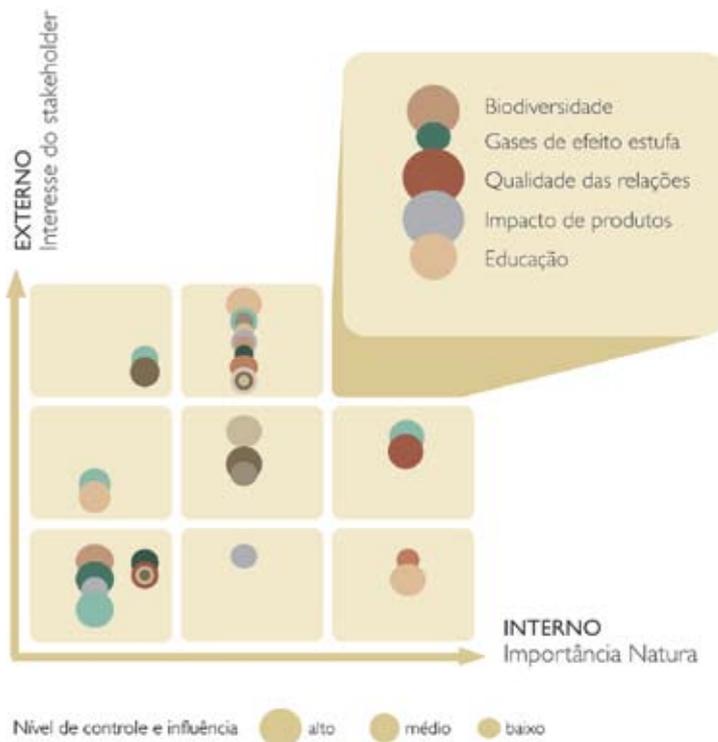
- *SD vision and business strategy*: In contrast with 2008, reporters in 2010 articulated their sustainability visions more successfully, with **Natura** securing a top grade. To be world class, a reporter should clearly set out the company’s sustainability journey and trajectory. For instance, the British retail firm, Marks & Spencer²¹ uses its report to lay out its sustainability journey from the 1980s through until 2030, by which time it aims to be a carbon positive business that wastes nothing, restores the natural environment and improves people’s lives.

- *Values, principles and policies for SD accountability*: All Top 10 reporters included some sort of public statement

of their accountability for sustainable development. These included a combination of mission statements, business principles, core values, etc. While first-time reporter, **Even**, has yet to develop a mission, vision and values linked to sustainable development, it still published a code of conduct and policies for suppliers, social investment and volunteering.

- *Issue identification and prioritization*: Companies also improved their identification and illustration of material issues. All Top 10 reporters provided information on their issue identification and prioritization processes to explain their selection of material issues, and eight companies published materiality matrices as part of their reports.

Figure 10 – Natura’s reported materiality matrix



Data provided by 2009 Annual Report

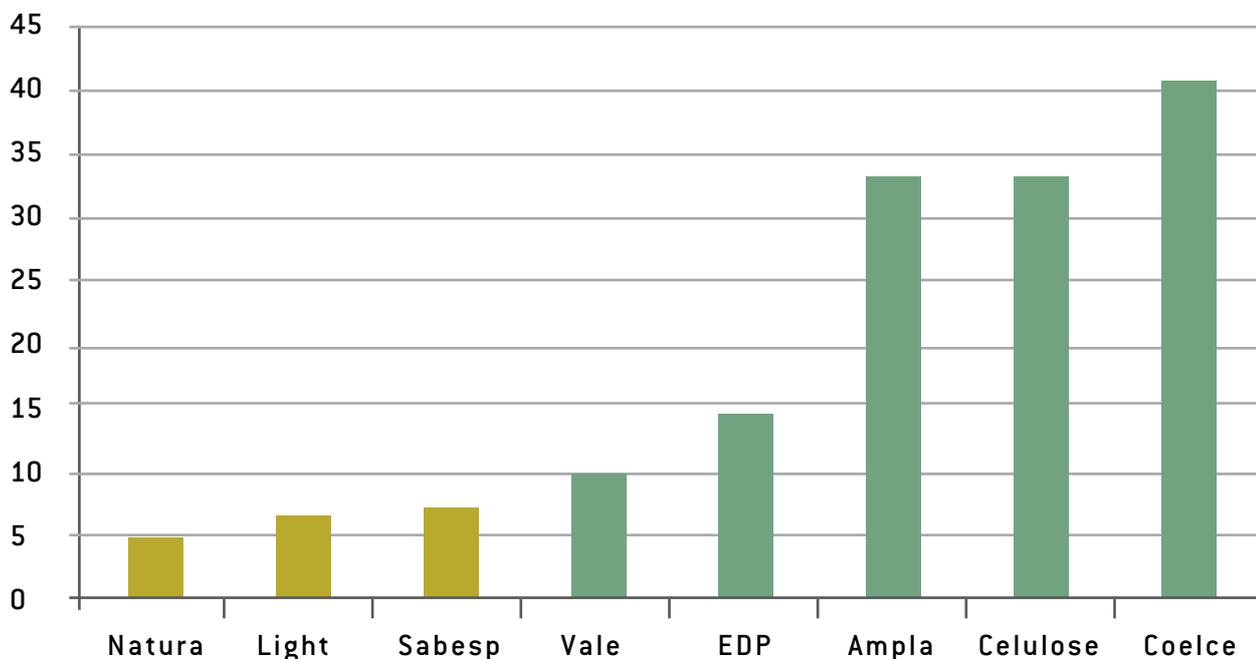
21. <http://plana.marksandspencer.com/media/pdf/planA-2010.pdf>

Need to try harder

- *Issue identification and prioritization:* Even though companies are improving their identification of material issues, there is room for improvement. While materiality assessments too frequently lead to a company identifying a plethora of issues, rigorous ranking of high, medium and low impacts should enable a corporation to clearly set out a small range (say four to eight) of top priority issues. Several of the Top 10 identified over 40 'material issues', which – while all will have some relevance – is not helpful in communicating a sense of priorities. To improve in future, companies need to apply stronger ranking criteria to sift their very top priority issues from the rest.

“The challenge of sustainability is not to be one of the parts of the business models, but to promote the integration between all of them. Like orchestras and sports teams, corporate results depend on the coordination between the parts, oriented by clear, objective and well defined principles.”
Celso Funcia Lemme

Figure 11 – Top priority material issues reported by the Top 10



* Itaú and Even are out of the chart because they do not publish matrix of materiality

* Only Natura, Light and Sabesp have fewer than eight top priority material issues

Figure 12 – Likely material issues per sector

Sector	Likely material issues
Cosmetics	Impacts on biodiversity and climate change; relationships with communities and consumers, including gender / women’s health issues and post-consumption
Paper	Impacts on biodiversity, land use and the sustainability of planted forests; water, climate change and relationships with communities, suppliers and consumers, including post-consumption
Sanitation	Water, impacts of climate change, universalization of sanitation access, sector regulation, education / awareness of sanitation services, health and hygiene
Energy	Climate change, transition to renewable energy, energy efficiency, education / awareness of energy services, relationship with communities, value chain partners and consumers
Financial services	Responsible consumer lending, responsible business lending, micro finance, environmental insurance, social-environmental funding, education awareness on finance
Mining	Sustainable land use, biodiversity, energy matrix, relationship with communities, value chain partners and consumers
Construction	Sustainable land use, biodiversity, climate change, waste management, labor practices, green constructions, relationships with communities, value chain partners and consumers

- *The business case*: The majority of companies scored poorly on the criteria that relate to how they report the integration of sustainability into their core businesses. This failure means it is unclear to readers how corporate investments in sustainability inform and add value to the business. In some instances, we discern that company activities add value, but even in those instances it is rarely well articulated. For example, **Banco Itaú** includes ‘conscious use of money’ and the need to educate customers as a key initiative, but fails to elucidate how this might help build new business (e.g. microfinance opportunities, or wealthier customer base in the future) and reduce business risks (e.g. by avoiding defaults on credit). To improve future scores in this section, companies need to work harder at showing how sustainability investments are relevant to business value creation and protection.

- *Sustainable development implementation challenges*: Many companies lacked balance in their discussion of the challenges of implementing sustainable development. While many CEO letters discussed the problems posed by the global economic situation, they rarely went on to discuss their own particular setbacks or challenges regarding specific sustainability issues. **Natura** and **Sabesp** were exceptions. The first one reports disappointments (e.g. 8.7% increase in water consumption and a quality of service lower than expected) as well as successes (e.g. 19% reduction in energy consumption), while the second highlights the challenges to be addressed at the end of each section of the report. Good practice requires open discussion and demonstration of how an organization learns from its difficulties and failures, as well as celebration of its successes.

Spotlight: Business integration

There may be several reasons to explain the failure of sustainability reports to effectively articulate the integration of sustainability with core business drivers and value creation.

1) Companies still need to identify where investments and activities related to sustainable development add most value to core business operations and shareholder value. Identifying and articulating how sustainability is an active lever for protecting and enhancing business is a challenge that is best addressed by a cross-functional team that combines understanding of the company's core business model with insight to its key sustainability challenges and opportunities. Bringing different areas of business expertise together to identify and articulate the strategic role of sustainable value creation is a critical step to integrating sustainability into core business management.

2) Companies do not regard their sustainability report as the appropriate channel for communicating the value created from sustainability strategies and investments: It seems that most Brazilian sustainability reports are largely targeted at NGOs and consumers, and not at shareholders or investors. This inclines companies to put an emphasis on long descriptions of their sustainability activities, without necessarily building a robust and intelligent business case.

3) Companies treat sustainability as a bolt-on activity that isn't core to their business model and so fails to deliver meaningful value creation. Certain companies may be involved in philanthropy and social giving without any tie-back to the nature of the business or its contribution to sustainable development (positive or negative). Such organizations need to reframe entirely how they approach sustainable development and its strategic value to their business. If sustainability initiatives aren't relevant to the core business, they can't deliver strategic value, and they will not be sustainable or credible in the long run.

“Business integration of sustainability is evidenced by **Vale's** Mission ‘To transform mineral resources into wealth and sustainable development’. In other words, sustainability issues are considered business issues.

Extractive activities rely on the access and the sustainable use of finite resources: there is no way of managing the business without a long term perspective and the establishment of a sound and credible relationship with the local communities.

In order to turn sustainability challenges into business issues, **Vale** has opted for measuring and improving its SD performance, assuming transparency is a business value and a commitment towards its stakeholders.”

Katsuo Homma,
Sustainability General Manager of Vale

“Business integration of sustainability is done through management tools, basically a sustainable BSC (Business Scorecard). The business strategy relies on the eight principles of SD set on the report (p.22) and is implemented through a management model that includes objective – indicator – target – action plan – budget. Although this is not openly reported, management does incorporate the ‘sustainability lenses’.”

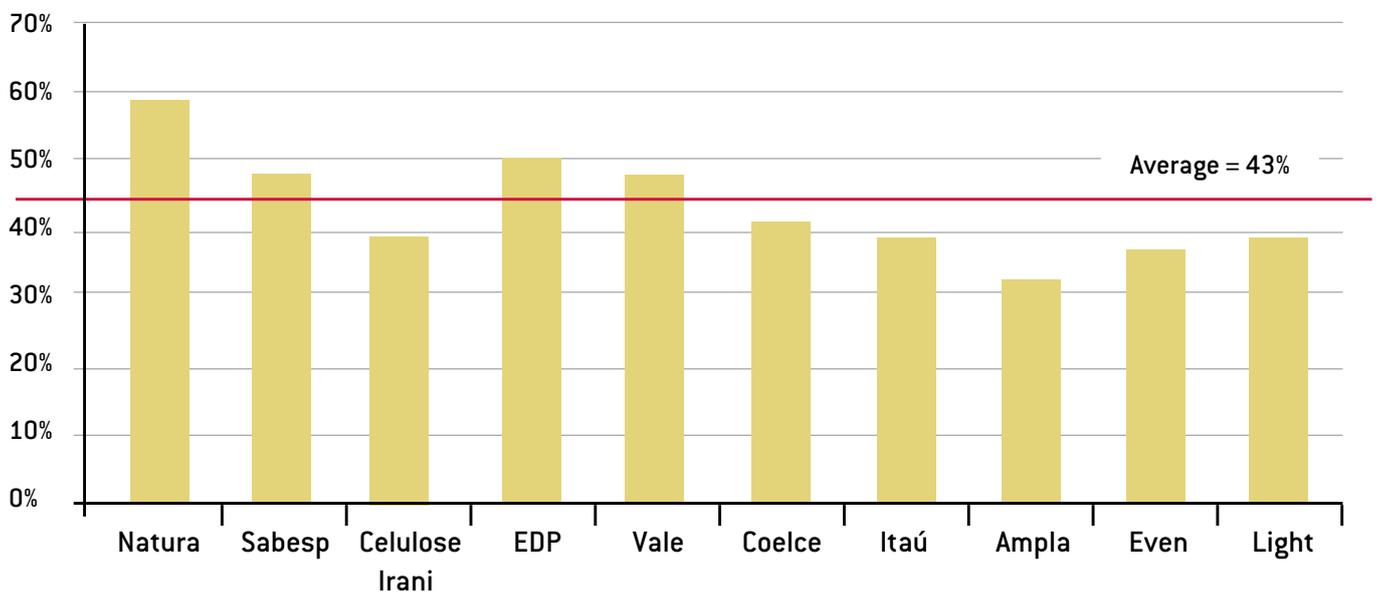
Marilena Gonçalves,
Executive Assistant of Institute EDP

MANAGEMENT

Readers and other stakeholders value reported information that helps them understand how an organization works to manage and improve its performance over time. Reports are evaluated against nine (9) specific criteria that appraise how well a reporter demonstrates its approach to implementing its vision and strategy. The criteria are used to investigate each report's discussion of a range of processes that are essential for effective sustainability management and learning. These include management procedures, but also aspects such as stakeholder engagement, value chain management, investor relations, public policy and philanthropy, among others.

Reporters performed poorly in this area in 2008 and marginally worse in 2010. While **Natura** scored over 58% this year, the remaining nine companies scored an average of only 41%. Our analysis strives to provide more guidance on best practices in key areas, both within Brazil and among the global reporting community.

Figure 13 – Average scores of the Top 10 in management



Getting better

Criteria relating to management procedures, value chain management, stakeholder engagement, and philanthropy and social investment saw relatively better performance among the Top 10, although there remains room for improvement across the board. Practices worth highlighting include:

- *Management procedures:* EDP successfully articulates its procedures for dealing with material impacts, including systems based on guidelines such as ISO9001:2008; ISO14001²², OSHAS18001²³ and SEM. To be world class, reporters need to go further and explain how management procedures inform core business decisions and drive continuous improvement. Ford Motor Company²⁴ and Exxon Mobil²⁵ are excellent examples of global best practice in this area. Ford goes to great lengths to clearly describe its business functions and the management procedures of each, making links to external standards, such as ISO 14001, where relevant. Exxon Mobil's Operations Integrity Management System (OIMS) is another robust example of a corporate management system.

- *Value chain management:* **Natura** delivers good reporting on this criterion, specifically its approach to tracking a series of indicators that help evaluate and manage the performance of suppliers in relation to **Natura's** own material issues. In future, it would be good to see the company reporting on how it is improving its sustainability performance at the seller and consumer interfaces of its value chain. Wal-Mart's Sustainability Index²⁶ is an excellent example of best practice – its focus is to create a more transparent supply chain, helping to drive product innovation and ultimately to provide customers with information that allows them to assess a product's sustainability.

- *Stakeholder engagement:* **Light** reports effectively on its annual engagement with over 60 representatives of different parts of society as part of its identification of key issues and material priorities. Best practice would go further and demonstrate how stakeholder input influences decision-making in practice. Timberland²⁷, HP²⁸ and SAP²⁹ are leading global reporters in this area, providing detailed information on the outcomes of their engagement processes throughout their stakeholder networks. In Brazil, Natura Conecta is a pioneering online initiative to engage and give voice to the company's different stakeholders – the aim is to convene and explore new ways of doing business based on collaborative intelligence, and **Natura** aims to use this approach to develop its 2010 report in a way that radically enhances transparency and the agility of its engagement.

- *Philanthropy and Social Investment:* **Vale** reports on how it actively manages its social impacts in the communities where it operates. The mining company describes how it works with different local organisations and parts of government to provide investments that generate social and economic development. Best practice would go further to report both the positive and negative impacts of social investment initiatives – GSK³⁰ and Cisco³¹ are global leaders in this realm. GSK clearly aligns its corporate responsibility priorities of “preventing disease, building capacity and promoting education” with its philanthropic investments, incorporating performance objectives and reporting on progress made. Cisco has focused on philanthropic giving through its “lifecycle of innovation” for social investments.

22. <http://www.iso.org/iso/home.html>

23. <http://www.osha-bs8800-ohsas-18001-health-and-safety.com/>

24. <http://www.ford.com/microsites/sustainability-report-2009-10/default>

25. http://www.exxonmobil.com/Corporate/Imports/ccr2009/community_ccr.aspx

26. <http://walmartstores.com/sustainability/9292.aspx>

27. http://www.timberland.com/corp/index.jsp?page=csr_strategy

28. <http://www.hp.com/hpinfo/environment/index.html>

29. <http://www.sapsustainabilityreport.com/>

30. <http://www.gsk.com/responsibility/index.htm>

31. <http://www.cisco.com/web/about/citizenship/index.html>

Need to try harder

Reporters scored poorly on the following criteria with few examples of good practices found among the Top 10:

- *Knowledge Management* is essential to ensure the effective use of information and insight to enable adaption, intelligent learning and continuous improvement within a company. Although there were few good performers within the Top 10, **Sabesp** provides some positive practices. GSK is an example of global good practice, with online initiatives such as EmpowerMe, myGSK, myCEO and myEHS that serve to engage employees, disseminate information, incorporate internal feedback and contribute to a working environment that is intelligent and information rich.

- *Public Policy Influence*: **Sabesp** and **Natura** are examples of good practice. In particular, **Natura's** report clearly articulates the company's principles regarding lobbying, which include principles of relationship with the government, policy of integrity against bribery and corruption, and policy of political campaign donations. **Natura** also clearly articulates biodiversity and waste management as the areas where it actively lobbies and spotlights which of its corporate departments undertake this. Improvements would entail **Natura** being more explicit regarding its expectations of politicians and the wider public, and reporting on how its lobbying activities are relevant to its core business. Separately, Brazilian energy companies are conspicuous in reporting very little on their lobbying activities with government and far greater transparency is to be expected. European energy companies, like Shell³², demonstrate good practice in this area.

- *Investor Relations*: This criterion achieved among the lowest scores in the 2010 analysis. While EDP mentions how it covers some issues related to GHG emissions with investors, it largely seems that Brazilian reports have yet to be designed with investors in mind. GE³³ is a global leader here, integrating materiality and financial analyses in regular investor discussions, and publishing monthly and quarterly reports that show it is actively working to convince shareholders of the value of its sustainability strategy.

“The success of sustainability strategy depends on the existence of an effective engagement of the company with its stakeholders; for this process to be a credible one, there must be a clear commitment with an open, constructive and continuous dialogue as part of an holistic engagement plan.”
Pedro Meloni

32. http://www.shell.com/home/content/environment_society/reporting/

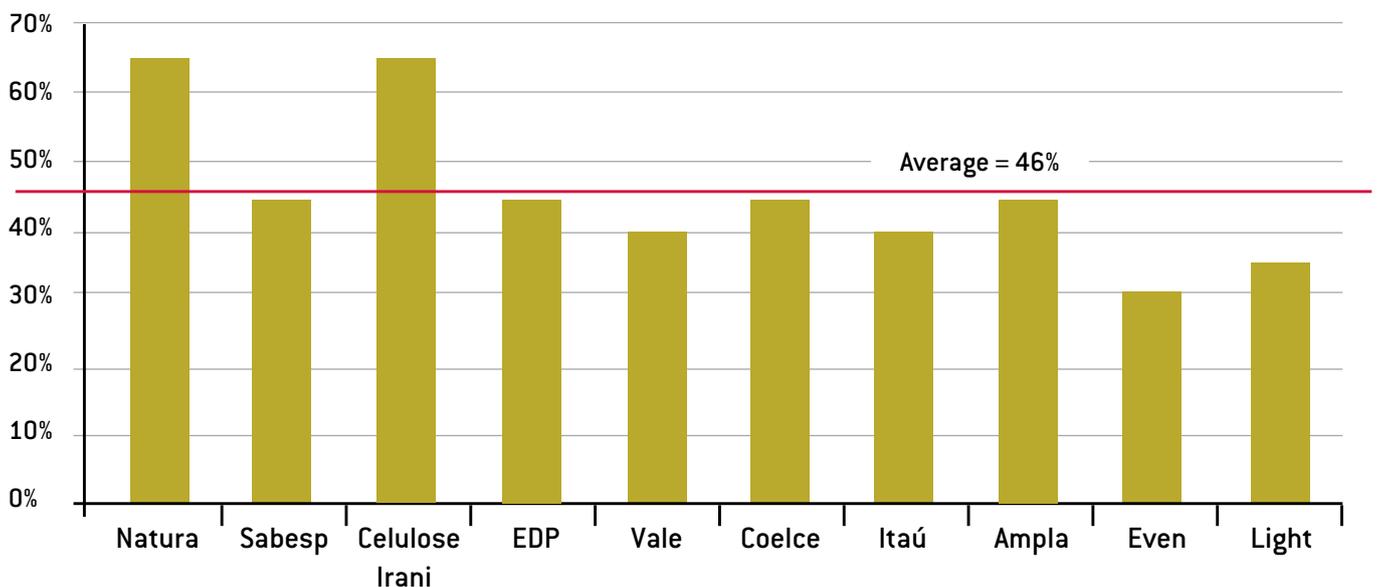
33. <http://ge.ecomagination.com/report.html>

PRESENTATION OF PERFORMANCE

Five criteria measure how well a report informs its readers of the company's performance. The criteria measure the robustness and relevance of a company's selected performance indicators given its identified material issues and stated strategy.

This category saw the greatest overall improvement since 2008, with the average performance score increasing from 41% to 46%. However the scores were polarized: **Natura** and **Celulose Irani** both scored 65%, while the remaining eight companies scored an average of just above 40%. **Even** came in with the lowest score (30%), although it is not unusual for newcomers to reporting to be poor in this area as it takes time to identify and develop strong indicators that drive performance on material issues.

Figure 14 – Average scores of the Top 10 in presentation of performance



Getting better

- *Performance and strategy alignment*: Reporters did reasonably well on the criterion that evaluates the degree to which performance reporting is aligned to stated strategy and material priorities. **Celulose Irani** showed depth and breadth of performance information through its use of credible indicators aligned to the company's material issues and accompanied by robust targets.

Need to try harder

- *Context and interpretation*: Apart from **Celulose Irani** and **Natura**, most reports were weak in providing sufficient context and interpretation for readers to understand their performance or the significance of reported facts and data.

- *Target setting*: Reporters also fell short in demonstrating the robust target setting that is essential to drive and demonstrate commitment to continuous improvement. Effective targets are SMART – specific, measurable, ambitious, relevant and time-bound – and communicated with sufficient narrative to allow readers to interpret both performance and its significance. Even if there is still room for improvement, Coelce provides a clear and consistent attempt to convey concrete performance targets. An example of global best practice is HP's 2008 report³⁴, which consolidates all figures in an accessible table, where key performance data is clearly presented in relation to priority issues, along with clear goals, targets and timelines.

- *Measuring sustainable development performance*: Even if companies report a lot of indicators, most of them are not related to material issues. **Natura** had the best score here, not only defining measures for environmental, social and economic impacts, but also explaining how indicators were selected.

34. <http://www.hp.com/hpinfo/globalcitizenship/08gcreport/downloads.html>

Spotlight: Climate change

Nearly 60% of Brazil's GHG emissions come from deforestation and changes in land use, over 20% from agriculture and some 16% from the energy sector. At COP-15, President Lula made voluntary commitments to cut the country's GHG emissions by over a third by 2020³⁵ compared to 2005. Experts currently expect that the country will meet its voluntary commitments by tackling three priority areas that include:

- (i) *Land use*: continuing to reduce deforestation of the Amazon (by 80%) and the Cerrado Bioma (by 40%);
- (ii) *Cattle ranching*: improving productivity;
- (iii) *Renewable energy*: encouraging its uptake.

While these priority areas might appear to let other sectors in Brazil off the hook, there has nonetheless been a flurry of voluntary business commitments on climate change, particularly in the run-up to COP-15. These included an open letter to Brazil on climate change, which was coordinated by Instituto Ethos, Forum Amazonia Sustenavel and **Vale** and initially signed by some 22 companies. The Coalition of Companies for Climate was set up by FBDS and supported by 23 companies, and the Brazilian Alliance for Climate convened 14 key entities from the agribusiness sector, including planted forests, bioenergy and others.

This enthusiasm is partially reflected in the Top 10's reporting on climate change:

- Nine of the Top 10 discuss their voluntary commitments,
- Seven adhere to the Carbon Disclosure Project (CDP),
- Six provide data on their GHG emissions in their sustainability reports,
- Yet only two set targets for GHG reductions.

While it is positive to see climate change being addressed, best practice would involve far more robust and complete target setting to achieve continuous improvement across corporate value chains. Understanding of the significance of climate change for business at large, and its links with issues like biodiversity and water scarcity, is becoming clearer. Therefore, leading reporters will increasingly be expected to demonstrate their management of the complex physical and regulatory risks, as well as their approach to liabilities, potential value chain disruption, and opportunities for innovating climate solutions.

Whatever sector a Brazilian company may be in, it has an incentive to cut emissions. This is partly to avoid non-tariff barriers from developed countries, to access international funds and credit lines from institutions that emphasize a responsible approach to climate change, and to remain a credible reporter on the international stage and in the sustainability debate.

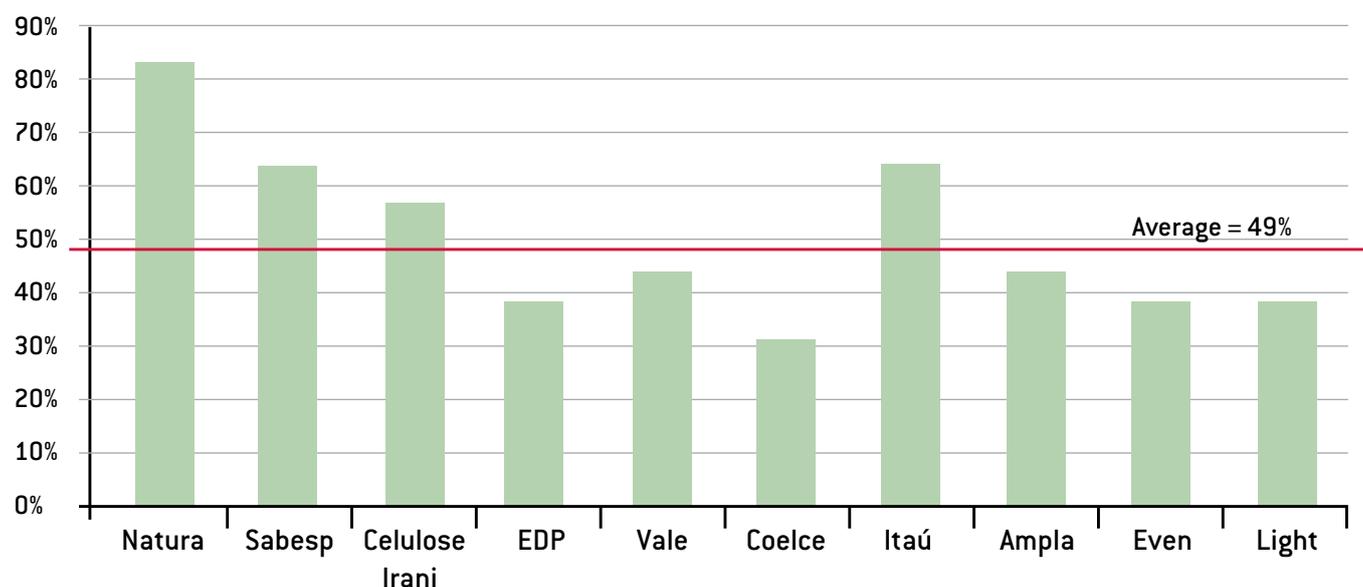
35. For further details, please see "Política Nacional de Mudanças Climáticas", number 12.187, as of 29 December 2009.

ACCESSIBILITY AND ASSURANCE

Four criteria measure the degree to which reported information can be trusted by readers. Best practice reporters are able to demonstrate that their reports have been subject to independent external review to appraise and guarantee the quality of information. The overall report also needs to be well organized and readable, and to demonstrate a commitment to improving transparency and accessibility over time.

This year **Natura** delivers an impressive top score of over 81%, compared to its 63% in 2008. **Banco Itaú** and **Sabesp** secure joint 2nd place, each with 63%, and **Celulose Irani** comes 3rd with 56%. The remaining six companies fall far behind, with an average of 39% and a lowest score of 31%.

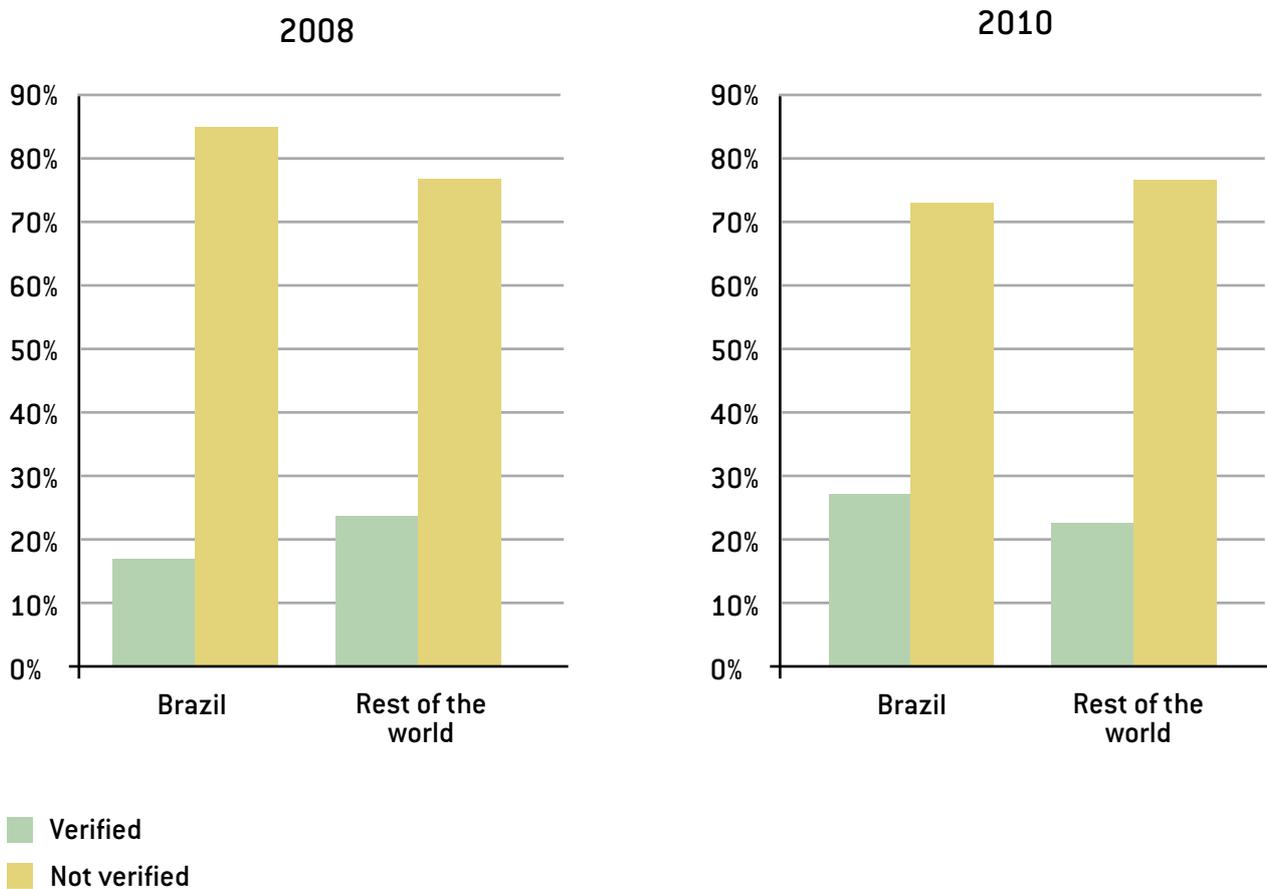
Figure 15 – Average scores of the Top 10 in accessibility and assurance



Despite the diverse results, when compared to a national average of verified reports, this year's Top 10 are still ahead of the overall Brazilian average (Figure 16) where only a quarter of all company reports are verified. This, in turn, puts Brazil ahead of the world

where just over a fifth of all companies have verified reports. If Brazilian companies continue with their rate of uptake of assurance, they look set to raise the bar for the rest of the world.

Figure 16 – Verification of reports



Data from this table provided by CorporateRegister.com

Getting better

- *Reporting standards*: All companies, at the very least, describe their use of reporting standards. **Ampla** is an example of best practice – it used GRI, IBASE, Global Compact and Ethos guidelines to build its report and also describes how an Ethos/ABRADEE questionnaire helped improve its management systems.

- *Assurance*: **Banco Itaú** is an example of good practice in its appreciation that different stakeholders may require different types of assurance. Its clients and investors expect sustainability information to be reviewed along similar lines to its financial data and so global accountancy firm, PWC, is used to review its report. NGOs and other civil society stakeholders expect greater stakeholder interrogation of the report and so **Banco Itaú** invites BSD Consulting to undertake a specialist sustainability assurance that includes stakeholder consultations. **Celulose Irani**'s report also includes an assurance statement from BSD Consulting which highlights challenges for the company and suggested improvements for the coming year, and credible stakeholder comments are incorporated throughout the report. The approach would be stronger if the company also reported how it will address the comments raised.

Need to try harder

- *Assurance*: In spite of some good practices, it is disappointing that two of the Top 10 (**Light** and **Even**) provide no form of assurance or verification. For some key audiences, this absence will undermine the credibility of the entire report. We would be surprised if a future Brazilian Top 10 contained any unverified reports, so **Light** and **Even** (and others) are likely to find assurance an essential element if they want to remain among Brazil's leaders and prosper in global rankings.

“It is very important that companies are transparent enough to report not only their conquests, but also their failures, problems and improvement plans. With this action, the stakeholders feel more confident in the companies and will be more likely to sustain the ‘social license for operation’ of each one. External assurance can contribute to increase the credibility of the reports and, consequently, the confidence of the interested publics.”

Hélio Mattar

Spotlight: Assurance

There are multiple forms of assurance that can underpin the credibility of reported information. Good quality assurance basically involves some kind of independent review where a qualified third party casts an impartial eye over corporate claims and / or data and tests them for accuracy and robustness. Without assurance, a company is limited in its ability to prove that what it is reporting is accurate and true.

There are many different types of assurance, but some key approaches involve:

- A traditional review of data for robustness, often undertaken by accountancy firms or sustainability specialists,
- Stakeholder commentary, where expert opinions (both favorable and critical) are published within the report,
- Stakeholder panels, where independently facilitated panels – representative of the company's stakeholders – get involved in the reporting process to some degree, potentially contributing opinions to materiality appraisals and during issue / content selection and often publishing a statement in the report speaking to the authenticity and adequacy of the company's strategies and performance.

Many companies combine some type of traditional assurance / data verification with some form of stakeholder input. Experimentation is encouraged to find the best way to build trust and credibility in the contents of one's reports, in the eyes of its intended audiences.

CONCLUSIONS & RECOMMENDATIONS

The growth and range of businesses reporting on their sustainability performance in Brazil is to be welcomed, and the success of some of the country's leading companies can only be congratulated. However, corporate sustainability reporting is never an end in its own right, and the ultimate measure of success is the degree to which reports serve to drive businesses to improve sustainability performance and, in turn, to play their part in actively enabling the sustainable development of all life on Earth.

Road to Credibility 2010 has identified many strategic and practical ways for Brazilian businesses to continue to improve their sustainability reports. Where available, we have spotlighted good practices in Brazil, and we have also identified reporters from around the world who are delivering leadership in reporting on certain dimensions. We encourage Brazilian reporters to look overseas to learn from best practices and to continue contributing their own particular experiences of successes and failures. In particular, we encourage Brazilian reporters to focus keenly on the following action plans as they plan future reporting initiatives:

1. Cultivate vision and ambition: Push the boundaries in your company's thinking about its business impacts, relevance and contribution to sustainable development and how it reports performance. Work to surprise report readers by demonstrating the innovative ways in which your company is working to contribute sustainable solutions that create added value in its core business.

2. Know your hottest issues: Be extremely rigorous in your materiality appraisals and only be satisfied with a ranking process that enables robust and credible prioritization of a top tier of no more than four to eight key issues to be covered in your sustainability reporting. Don't entirely drop the other issues, but think about covering them in other media or at least clearly demarcating them from those labeled 'material'.

3. Remember investors and strengthen the business case: Make sure investors and shareholders are a key audience for your report and ensure you develop content that meets their needs. This essentially requires that you demonstrate how your sustainability performance relates to your core business as well as how it is serving to protect, enhance and create business value.

4. Address the whole value chain: Ensure your report delivers insight regarding your company's role, influence and sustainability impacts across its complete value chain – from wellhead or pit face through purchaser, customer, retailer and consumer – as well as post-consumer.

5. Integrate reporting: As you strengthen the connection between sustainability and your core business, take steps towards integrating sustainability into financial reporting. While not necessarily dropping the stand-alone sustainability publication, explore different ways to show financial audiences how your sustainability strategies are creating tangible value and demonstrate to other stakeholders how sustainability is fundamental to good business practice – then see the extent to which these audiences and messages might credibly overlap.

6. Use targets and demonstrate learning and adaption: Reporting against targets is the only credible way to demonstrate commitment to continuous improvement – use targets to articulate ambition and report on successes, failures and lessons learned for adapting and improving future performance.

7. Be climate active: Think holistically about climate and its ramifications for biodiversity, water supply and related issues. Use your sustainability report to demonstrate how your business is taking a robust approach to reduce its climate impacts, increase its resilience to forecasted climate change, and innovate climate solutions. Clearly demonstrate how this type

of risk management and innovative mindset enhances your business performance and value creation – in the eyes of many international investors, consumers, value chain partners and others in civil society.

8. Embrace assurance and be creative: Your report will not lack resonance unless you provide independent verification and assurance of your performance. Use standard assurance providers, but also explore novel forms of stakeholder assurance. In both instances, demonstrate how insights are driving improvement.

The future

Finally, in the Afterword of our 2008 report, we questioned whether sustainability reports would eventually disappear as sustainability information is integrated into other corporate media and financial reporting, and as technology allows for ‘real-time’ communication of performance and critical information via social and other digital media. Since then, many businesses have certainly stepped out into the domains of Twitter and Facebook as a way to engage more directly and immediately with interested parties and customers. Technology has also advanced apace, with initiatives like the GoodGuide’s mobile phone app empowering consumers to scan thousands of products for sustainability information as they shop. Keeping pace with these changes and their significance can be an exciting and daunting challenge for reporters.

In this context we encourage Brazilian reporters in 2010 and years to come to:

- **Step out of your comfort zone:** Look beyond the horizon of current reporting practice and debates to see the incredibly diverse and vibrant jungle of communication possibilities emerging as a result of Web 2.0 technologies and the extraordinary opportunities arising for real-time interaction and transparency. Leading reporters of the future are unlikely to be those companies that focus exclusively on the production of one sustainability report – integrated or stand alone.

The leading reporters will be those companies which have learned to be adept at sharing their real-world sustainability experience and performance on the digital thoroughfares of the world, in ways that present and harvest intelligence from and as a participant in a transparent, seamless web of interaction. This may still seem like science fiction to many, but if the next few years see as much change and progress as the last two, then intelligent digitized reporting – communication where the only option is to join the conversation and influence the message, but where the message has no single channel or control – is certainly not far off on the horizon.

For more information on SustainAbility and FBDS, please visit <http://www.sustainability.com> and <http://www.fbds.org.br>

Feedback

Your feedback will help us to ensure that this research keeps progressing and remains critical in the future. Compliments, criticisms, corrections and suggestions are welcome.

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SustainAbility is a think tank and strategy consultancy working to inspire transformative business leadership on the sustainability agenda. Established in 1987, SustainAbility delivers illuminating foresight and actionable insight on sustainable development trends and issues. The company operates globally and has offices in Europe, North America and India.

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FBDS – Fundação Brasileira para o Desenvolvimento Sustentável

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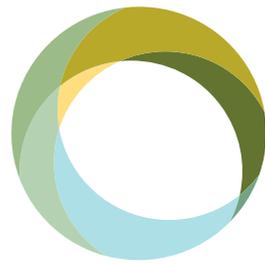


Data support: CorporateRegister.com

CorporateRegister.com is the global corporate responsibility (CR) resources website. It hosts the world's most comprehensive directory of CR and sustainability reports, profiling over 28,000 reports worldwide. With an archive stretching back to 1990 it is indispensable for anyone working in the field of CR and sustainability reporting. Working with some of the leading organizations in corporate responsibility, CorporateRegister.com hosts several official reporting registers. Further site features include a fully searchable directory of over 6,000 organizations ('reporting partners') actively involved in CR reporting. CorporateRegister.com manages the annual global online CR reporting awards, the CRRRA (see <http://www.reporting-awards.com>) and is one of the three Newsweek annual Green Rankings data partners.

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