A Tale of Two Stories: Sustainability and the Quarterly Earnings Call

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The Rise of Sustainability

"Sustainability" has become part of the business lexicon. It is now a common, yet still often controversial, term. Its meaning is also not well-defined.

We define sustainability in terms of a company's *strategy* and the relationship between this strategy and the society that grants companies their license to operate. A sustainable strategy is one that enables a company to create value for its shareholders, while at the same time contributing to a sustainable society. A sustainable society is one that meets the needs of the current generation without sacrificing the needs of future generations. The responsible management of natural resources and human capital is clearly an important part of this mission. For this reason, a sustainable strategy is one that aims to minimize the negative effects of a company's operations and activities on the environment and local communities—effects often referred to by economists as "externalities"—without significant losses in productivity and value creation. For companies to accomplish all this, the challenge is to integrate the material sustainability issues for their sector into the core of their operations. Viewed in this way, sustainability is more than a program; it is a critical part of a firm's strategy.

To this end, many companies with long planning horizons are likely to find it in their shareholders' interests to make investments that are above and beyond what law and regulation require as it responds to changing social expectations—expectations that often prove to be precursors of future regulation. These investments will not necessarily pay off over the short term, can have a high degree of uncertainty, and their ultimate value depends upon future states of the world that cannot be predicted.

Surveys suggest that corporate executives are increasingly interested in sustainability. A 2010 survey conducted by Accenture and the UN Global Compact (Accenture/Global Compact) on "sustainability strategies" found that 96% of the responding CEOs believed that sustainability issues should be fully integrated into the strategy and operations of the company (up from 72% in 2007)—and that 81% claimed they were doing so. Ninety-three percent of the CEOs said they believed that sustainability issues will be critical to the future success of their business. And an equal percentage felt that boards should discuss and act on sustainability issues, and 75% said they believed their boards were doing so.[2]

Evidence in support of the perceived importance of sustainability by executives was also provided by a 2012 survey on innovation and sustainability by the *MIT Sloan Management Review* in collaboration with The Boston Consulting Group (MIT/BCG).[3] When asked which issues executives associated with sustainability, the most common response (63%) was the "economic sustainability of the organization," followed by environmental issues (62%), corporate social responsibility issues (61%), and increased emphasis on a long-term perspective (53%).[4]

At the same time, however, the survey also found that making the business case for sustainability is not an easy thing to do. Only 38% of respondents said they thought they had succeeded in doing this, while 32% said they had not, and 15% said they had tried but it was too difficult (the remaining 25% were unsure). These findings were similar in terms of assessing

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2. Accenture and UN Global Compact, "A New Era of Sustainability CEO Study 2010," June 2012. http://www.unglobalcompact.org/docs/news_events/8.1/UNGC_Accenture_CEO_Study_2010.pdf, accessed August 25, 2013. The survey included both interviews and an online survey. Fifty interviews were conducted with CEOs, chairpersons, and presidents of UN Global Compact participant companies and an additional 50 interviews were conducted with other senior business executives, civil society leaders, and external experts and UN Global Compact board members. The online survey included 766 Global Compact participant CEOs. Survey and interview respondents represented a large diversity of both countries and industries.

3. *MIT Sloan Management Review* in collaboration with The Boston Consulting Group, "The Innovation Bottom Line," Winter 2013. http://sloanreview.mit.edu/reports/sustainability-innovation/. The analysis includes a sample of 2,600 respondents from commercial enterprises, with respondents from academic, governmental, and nonprofit organizations excluded. The respondents are based around the world, with a wide variety of industries represented. The sample is drawn from a number of sources, including MIT alumni, MIT Sloan Management Review Subscribers, and BCG clients. Interviews with practitioners and experts were also conducted, which provided case studies to illustrate the survey results.

4. Competitive forces were seen as very important—60% pursuing sustainability strategies felt that this was necessary to be competitive, another 31% said it wasn't now but would be in the future, and only 5% said sustainability was not important for competitiveness. Sixty-two percent of the respondents felt that their CEO had a strong commitment to sustainability. The perceived importance of sustainability was also increasing, with 63% responding that their organization's commitment had increased significantly or somewhat (70% expected it to increase in the next year), 29% cited no change (24% expected no change in the next year) and only 3% cited a somewhat or significant decrease (2% expected decrease in the next year). In light of this, it follows that about one-half of respondents (48%) said their company's business model had changed as a result of sustainability.

the impact of sustainability on profitability, with 37% of the respondents reporting a positive impact on profit, 31% reporting no impact, and 22% saying there was a negative impact.[5]

By definition, a sustainable strategy requires the support of the company's investors, especially those who might otherwise be inclined to put pressure on the company to focus on quarterly earnings. A common complaint made by companies is that most investors have little interest in sustainability issues, and that their primary focus is short-term performance, such as quarterly earnings.[6]

The response by many investors is that they do indeed "care about sustainability," and this includes mainstream investors and not simply Socially Responsible Investment (SRI) funds. However, such investors also complain that companies do not do a very good job of explaining the financial importance of sustainability issues and do not provide them with much useful information to back up any claims they make that it does.[7]

Giving credence to these investor claims, CEOs acknowledge that they could be more effective in their measurement and reporting of sustainability. In the Accenture/Global Compact survey, nearly every respondent (91%) said companies should measure both the positive and the negative impacts of their activities on sustainability outcomes, but only 71% say they are doing so—which represents a 20% gap between aspirations and outcomes. Similarly, 85% said companies should design and implement metrics that track performance against sustainability objectives, but only 64% said they are doing so—another 20% gap. And whereas 72% say companies should incorporate ESG issues into discussions with financial analysts, only 48% say they are doing so, for a 25% gap.

Broadly speaking, then, these survey results suggest strong interest in sustainability on the part of the corporate and investment communities. However, companies are struggling to capture and communicate the value in doing so, thereby making it hard for investors to factor this into their own decision-making.

Commitment by Companies

One way a company can indicate its commitment to sustainability is by joining the UN Global Compact, which identifies itself as "a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. By doing so," as the statement goes on to say, "business, as a primary driver of globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere."[8] The Global Compact has also expressed its mission in terms of nine principles—two on human rights , four on labor, three on the environment, and one on anti-corruption.[9]

Launched in July 2000, The UN Global Compact started with 44 business participants. By 2013, the organization had 7,717 participants (for a compound annual growth rate of 49%, which is reported in Figure 1).[10] This growth rate is a strong indication of the growing interest in the corporate community in sustainability issues. Such growth must be interpreted with caution since fewer than 1,000 of these companies are publicly traded, which may well suggest the difficulty public companies have in incorporating sustainability into their strategy *when faced with the pressures* of short-term capital markets.

There are two other rough indicators of the growing interest in sustainability that are more public-company specific (although not exclusively so): the number of companies issuing corporate social responsibility (CSR) or sustainability reports (which are voluntary in most countries); and the number of companies participating in the Carbon Disclosure Project (CDP). Data from the Global Reporting Initiative (GRI) show that the number of companies issuing sustainability reports rose from 44 in 2000 to over 3,531 in 2012.[12] Similarly, the number of companies responding to the annual CDP survey has increased from 235 in 2003 to 4,112 in 2012.[13]

5. A strong relationship exists between having a business case and profit impact. Fully 60% who reported having a business case said the profit impact was positive, versus 20% for those who do not. There was also a relationship between the number of elements in the company's business model that had changed and having a positive profit impact from sustainability. Out of a total of six business model elements (product/service offering, value chain processes, organizational structure, cost model, target segments, and revenue model), when only one or two elements were changed the percent reporting a positive profit impact was 37 and 40, respectively. This number rose to 55% when five or six elements were changed. It was even higher, 59%, when three or four elements were changed but two of them included target segments and value chain processes, clearly illustrating the importance of customers and suppliers in getting positive financial results from sustainability.

6. The Accenture/ Global Compact survey found that 34% of CEOs (up from 26% in 2007) believed that the lack of recognition from the financial markets is a barrier to integrating environmental, social, and governance issues into the strategy of the company.

7. Thirty percent of the CEOs in the Accenture/UN Global Compact survey acknowledged a failure to recognize a link between sustainability and the company's value drivers.

8. United Nations Global Compact, "Overview of the UN Global Compact." http://www.unglobalcompact.org/AboutTheGC/index.html, accessed August 24, 2013

9. United Nations Global Compact, "The Ten Principles." http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html, accessed August 24, 2013.

10. Labor organizations, nongovernmental organizations (NGOs), academic institutions, public agencies, and cities can also be participants, taking the total participation to over 10,000. UN Global Compact, "UN Global Compact participants," http://www.unglobalcompact.org/ParticipantsAndStakeholders/index.html, accessed August 30, 2013.

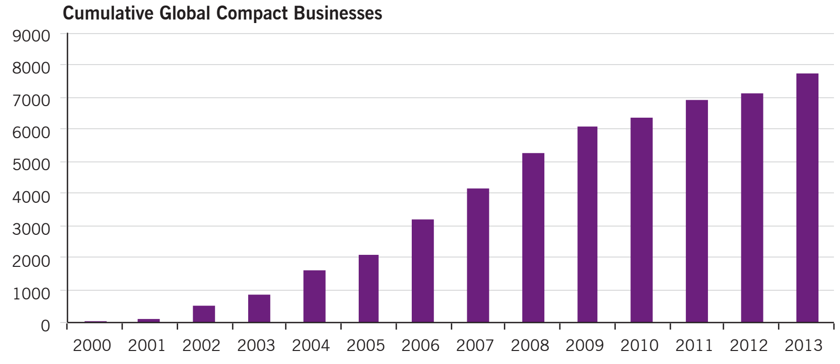
11. Data provided by Naoko Kimura of the UN Global Compact on August 31, 2013.

12. Calculated using the GRI database, http://database.globalreporting.org/search. Most of these companies have adopted sustainability reporting guidelines developed by the Global Reporting Initiative (GRI), "a non-profit organization that works towards a sustainable global economy by providing sustainability reporting guidance." Global Reporting Initiative, "What is GRI?" https://www.globalreporting.org/information/about-gri/what-is-GRI/Pages/default.aspx, accessed August 24, 2013.

13. CDP, "Reports and data," https://www.cdproject.net/en-US/Results/Pages/overview.aspx, accessed August 29, 2013. Every year the CDP sends a letter to thousands of companies signed by a large number of institutional investors that asks companies to voluntarily respond to a questionnaire about their climate change practices. "Evidence and insight is vital to driving real change. We use the power of measurement and information disclosure to improve the management of environmental risk. By leveraging market forces including shareholders, customers and governments, CDP has incentivized thousands of companies and cities across the world's largest economies to measure and disclose their environmental information. We put this information at the heart of business, investment and policy decision making." CDP, "Catalyzing business and government action," https://www.cdproject.net/en-us/pages/about-us.aspx, accessed August 29, 2013.

Figure 1 **Growth in Participation in the UN Global Compact**[11]

This represents for each year the total number of new joiners less the total number of delistings.



One of the requirements of being a signatory to the UN Global Compact is that the company file each year a "Communication on Progress."[14] Companies are expected to post their Communication on Progress (COP) on the Global Compact website and to communicate it broadly to all their stakeholders. Each COP must contain a statement of continued support by the chief executive, a description of practical actions in each of the four issue areas, and a measurement of outcomes.[15]

COPs that fail to meet these three requirements are placed at the "GC Learner Level." Of the 14,316 COPs published between February 2010 and August 2013, 21.1% did not meet the minimum COP content requirements.[16] The number of COPs failing to meet the three requirements has declined each year, from 33.4% in 2010 to 13.7% in 2013. Persistent failure to publish a COP can result in expulsion. As of August 2013, 4,173 business participants had been expelled, indicating that it is difficult for companies to use the Global Compact as a fig leaf for "greenwashing" over a long period of time.

The Global Compact also tracks the number of companies that choose to leave on a voluntary basis. The number leaving the Global Compact is clearly a function of size, with far fewer small companies remaining participants than larger ones. In 2013 the cumulative percentage since 2000 of companies leaving the Global Compact was about 6% for companies having more than 50,000 employees—but it was over 40% for SMEs. For companies with 5,000-49,999 and 250-4,999 employees, these percentages were 17.5% and 38.4%, respectively. These figures suggest that, for companies evaluating the cost-benefit tradeoff of joining the Global Compact, size is likely to be an important consideration. Perhaps it is easier for large companies with more resources to meet the commitments required for participation in the UN Global Compact.[17]

Commitment by Investors

The investor counterpart to the UN Global Compact is the United Nations-supported Principles for Responsible Investment (PRI) Initiative, which describes itself as follows:

An international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories that will incorporate these issues into their investment decision making and ownership practices. To the extent they implement the Principles, signatories contribute to the development of a more sustainable global financial system.[18]

Investors adopting these Principles have committed themselves to support and encourage the development of sustainable strategies by companies. For example, Principle 2 states that investors will incorporate ESG (environmental, social, and governance) issues into their ownership policies and Principle 3 that they will seek ESG disclosures by companies. The Principles are "voluntary and aspirational," and are intended to "offer a menu of possible actions for incorporating ESG issues into investment practices across asset classes."[19]

14 As stated on the UNGC's website, "Business participants in the UN Global Compact commit to make the Global Compact ten principles part of their business strategies and day-to-day operations. Companies also commit to issue an annual Communication on Progress (COP), a public disclosure to stakeholders (e.g., investors, consumers, civil society, governments, etc.) on progress made in implementing the ten principles of the UN Global Compact, and in supporting broader UN development goals." United Nations Global Compact, "What is a COP?" http://www.unglobalcompact.org/COP/index.html, accessed August 23, 2013.

15. United Nations Global Compact, "Communication on Progress: What is Required?" http://www.unglobalcompact.org/COP/communicating_progress/cop_policy.html

16. Data provided by Naoko Kimura of the UN Global Compact on August 29, 2013.

17. Data provided by Naoko Kimura of the UN Global Compact on August 29, 2013.

18. Principles for Responsible Investment, "About the PRI Initiative." http://www.unpri.org/about-pri/about-pri/, accessed August 24, 2013.

19. The Principles are as follows:

Principle 1: We will incorporate ESG issues into investment analysis and

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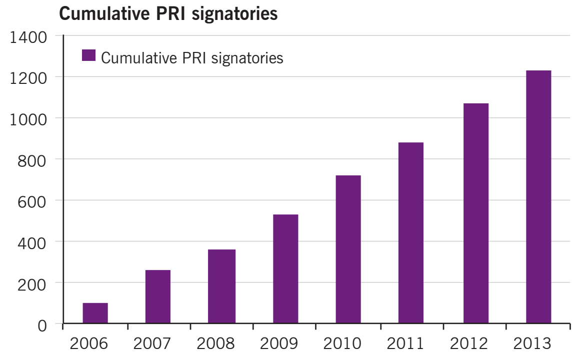
Figure 2 **Principles for Responsible Investment Signatory Growth**[22]



The PRI was started in 2006, six years after the UN Global Compact. Since then, its growth in membership has been similar to that of the Global Compact (Figure 2). It went from 100 signatories in 2006 representing $4 trillion in assets under management to 1,188 signatories in 2013 representing $34 trillion in assets under management, or 15% of the world's total investable assets.[20] The compound annual growth rate in number of signatories is 43%. PRI signatories also appear to have a substantial percentage of their assets under management that are subject to the integration of sustainability issues into their investment decisions, with an average of 63% across all asset classes, ranging from 18% for hedge funds to 87% for infrastructure funds.[21] Nevertheless, the percentage of assets under management subject to integration by PRI signatories is still low. In 2010, only 7% of total global assets under management across all asset classes were subject to integration by PRI signatories. The range was from 0% for infrastructure to 29% for fixed income (corporate issuers) as compared to 67% for PRI signatories.

Thus, as in the case of companies, while the growth in the number of investors in support of sustainability has been impressive, it still represents a fairly small proportion of the investment community.

Similar to the Global Compact's COP, the PRI has a reporting aspect, with all signatories required to report to the PRI's Secretariat, but with voluntary external publishing. Although most signatories choose not to release the report publicly, the number has steadily increased in both absolute and percentage terms, from 34 (22%) in 2008, to 72 (26%) in 2009, 165 (38%) in 2010, and 241 (44%) in 2011.[23] The PRI reporting framework is designed to achieve three main objectives: accountability of the PRI, signatory transparency, and signatory assessment. The framework meets these goals by providing a set of standardized indicators that are succinct and relevant to all investors.[24] Starting in 2013, public disclosure will be a signatory requirement.[25]

As with participation in the Global Compact, signatories of the PRI can be delisted, although the available data are less clear on the reasons why. Signatories can be delisted if they do not pay the mandatory annual membership fee, participate in the annual reporting and assessment process, or choose to voluntarily leave the Initiative. Signatories may also be delisted because they have merged with, or been acquired by, another signatory and therefore remain part of the PRI community.

The Communication Problem

Getting beyond high-level indicators such as those just discussed, it is difficult to be precise about the real degree of integration of sustainability by both companies and investors. That is to say, the numbers we have just reported do not tell us much about the extent to which sustainability considerations really influence the content and timing of their resource allocation decisions. However, what is quite clear is that the deliberations and decisions of each group in this regard affect the others.

decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

PRI, "The six Principles," http://www.unpri.org/about-pri/the-six-principles/, Accessed August 28. 2013.

20. Principle for Responsible Investment, "PRI Fact Sheet." http://www.unpri.org/news/pri-fact-sheet/ Accessed August 29, 2013.

21. PRI, "Report on Progress 2011," http://www.unpri.org/viewer/?file=files/2011_report_on_progress.pdf. Accessed August 28, 2013.

22. Data provided by Danielle Chesebrough of the Principles for Responsible Investment on August 21, 2013.

23. Data provided by Titia Sjenitzer of the PRI on September 2, 2013.

24. PRI, "Reporting and Assessment." http://www.unpri.org/areas-of-work/reporting-and-assessment/. Accessed August 28. 2013.

25. See PRI, "A Snapshot of the New PRI Reporting Framework," June 2013, http://d2m27378y09r06.cloudfront.net/viewer/?file=wp-content/uploads/2013_PRI_RF_Snapshot.pdf for an overview of the required report to be made public.

Companies will be reluctant to make the necessary investments to create a sustainable strategy in order to survive and prosper over the long-term if the short-term penalties exacted by the market are perceived to be too high. A CEO who cannot survive in the short-term will not be around to benefit in the long term. Investors, on the other hand, will be reluctant to invest in companies espousing sustainable strategies if the company cannot make a compelling business case—one that shows the relationship between sustainability and even long-term financial performance. Both the Accenture/Global Compact and MIT/BCG surveys cited above indicate that the lack of frameworks and metrics are a constraint, both internally and externally, for understanding how best to incorporate sustainability considerations into the core of a company's strategy and operations.

Developing Frameworks and Standards for Sustainability

Work is being done to address the problem of creating frameworks and measurement and reporting standards that will enable companies to better understand the relationship between financial and nonfinancial (i.e., environmental, social, and governance) performance in order to develop more sustainable strategies. While a number of organizations are working in this area, four are particularly important: the International Integrated Reporting Council (IIRC),[26] the Sustainability Accounting Standards Board (SASB),[27] the Climate Disclosure Standards Board (CDSB),[28] and the Global Reporting Initiative (GRI).[29] The first three organizations are focused on reporting to investors, while the GRI has a multi-stakeholder approach.

How are these four organizations related to each other? The IIRC has developed an overarching framework for integrated reporting but is not attempting to establish measurement and reporting standards. In the case of conventional financial information, such standards are either U.S. Generally Accepted Accounting Principles (U.S. GAAP) or International Financial Reporting Standards (IFRS), or some country variation on the latter. In the case of nonfinancial information, such standards are now being developed by the SASB for sector-specific issues, with the CDSB's Climate change Reporting Framework likely to be the source of guidance for climate-related disclosures. The GRI's G4 Guidelines complement the investor focus of these three organizations by providing guidance on disclosures to stakeholders and a certain class of investors, such as those in Socially Responsible Investment (SRI) funds.

26. The International Integrated Reporting Council, a nonprofit organization with offices across the globe, was founded in August 2010 as a collaboration between The Prince's Accounting For Sustainability Project (A4S) and the GRI. [Disclaimer: Eccles is a member of the Steering Committee.] The IIRC defines integrated reporting (<IR>) as "a process that results in communication by an organization, most visibly a periodic integrated report, about value creation over time. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term." The IIRC clearly states that the audience of "An integrated report should be prepared primarily for providers of financial capital in order to support their financial capital allocation assessments." In April 2013 the IIRC published its "Consultation Draft of the International <IR> Framework." Version 1.0 of the Framework will be published in December 2013. The <IR> Framework is based on two fundamental concepts. The first is the "six capitals" of natural, financial, human, manufactured, intellectual, and social and relationship. The second is a "business model defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term." The Framework also contains the "Guiding Principles" of (1) strategic focus and future orientation, (2) connectivity of information, (3) stakeholder responsiveness, (4) materiality and conciseness, (5) reliability and completeness, and (6) consistency and comparability." International Integrated Reporting Council, "Consultation draft of the International <IR> framework" http://www.theiirc.org/wp-content/uploads/Consultation-Draft/Consultation-Draft-of-the-InternationalIRFramework.pdf, accessed August 26, 2013.

27 The Sustainability Accounting Standards Board, based in San Francisco, California, was incorporated in July 2011 as a not-for-profit organization. It is accredited to establish sustainability accounting standards by the American National Standards Institute (ANSI). [Disclaimer: Eccles is Chairman of SASB and Serafeim is a member of its Standards Council.] "SASB defines sustainability as environmental, social and governance factors that have the potential to affect long-term value creation and/or are in the public's interest." SASB, "Vision and Mission," http://www.sasb.org/sasb/vision-mission/, accessed August 26, 2013. Like the IIRC, SASB defines its primary audience as investors, particularly investors who use the 10K reports filed by U.S. companies and the 20F reports filed by foreign companies that are listed in the U.S. The conceptual foundation for SASB is that the material ESG issues vary by sector and it uses the SEC's definition of materiality. Towards that end, SASB is developing standards for 10 sectors which are subdivided into 88 industries. All SASB standards meet the minimum requirement of being relevant, useful, applicable, cost effective, comparable, complete, directional, and auditable. Sustainable Accounting Standards Board, "Principles." http://www.sasb.org/approach/principles/, accessed August 26, 2013. On materiality based on sectors, see "From Transparency to Performance: Industry-Based Sustainability Reporting on Key Issues," by Steve Lydenberg, Jean Rogers, and David Wood, Initiative for Responsible Investment, August, 2010, http://www.sasb.org/wp-content/uploads/2012/03/IRI_Transparency-to-Performance.pdf.

28 The Climate Disclosure Standards Board is a non-profit organization that was founded at the annual meeting of the World Economic Forum in January 2007. It "is a consortium of business and environmental organizations jointly advancing its international reporting framework for companies, helping them disclose information about their climate change-related risks and opportunities, carbon footprints, carbon reduction strategies, and their implications for shareholder value." Climate Disclosure Standards Board, "About CDSB." http://www.cdsb.net/about-cdsb, accessed August 26, 2013. The eight consortium members are CERES; CDP; The Climate Group; The Climate Registry (TCR); The International Emissions Trading Association (IETA); World Council for Business and Sustainable Development (WCBSD); World Economic Forum (WEF); and World Resources Institute (WRI). CDP's London office provides the Secretariat to CDSB and is responsible for the organization's operational activities. The CDSB published the "Climate Change Reporting Framework – Edition 1.1" in October 2012. "The CCRF requirements apply to climate change-related disclosures that are made in **or linked to** (emphasis in original) information in mainstream financial reports." Climate Disclosure Standards Board, "Climate Change Reporting Framework – Edition 1.1," October 2012. http://www.cdsb.net/sites/cdsbnet/files/cdsbframework_v1-1.pdf, P. 4. As with the IIRC and SASB, the primary target audience of CCRF disclosures is investors and others who use "mainstream financial reports." Climate Disclosure Standards Board, "About CDSB." http://www.cdsb.net/about-cdsb, accessed August 26, 2013.

29. The Global Reporting Initiative is a non-profit organization founded in 1997 by the Coalition for Environmentally Responsible Economics (Ceres) and the Tellus Institute. The GRI is a multi-stakeholder, network-based organization whose Secretariat is based in Amsterdam, the Netherlands and that is dedicated to "providing stakeholders with enhanced information to inform their decisions." Global Reporting Initiative, "G4 Sustainability Reporting Guidelines," 2013. https://www.globalreporting.org/resourcelibrary/GRIG4-Part1-Reporting-Principles-and-Standard-Disclosures.pdf. P. 3. "GRI has pioneered and developed a comprehensive Sustainability Reporting Framework that is widely used around the world. The Framework enables all organizations to measure and report their economic, environmental, social and governance performance – the four key areas of sustainability." Global Reporting Initiative, "What is GRI?" https://www.globalreporting.org/information/about-gri/what-is-GRI/Pages/default.aspx, accessed August 26, 2013. In May 2013 the GRI published its "G4 Sustainability Reporting Guidelines" updating the G3.1 Guidelines. "The aim of G4, the fourth such update, is simple: to help reporters prepare sustainability reports that matter, contain valuable information about the organization's most critical sustainability-related issues, and make such sustainability reporting standard practice." Global Reporting Initiative, "G4 Sustainability Reporting Guidelines," 2013. https://www.globalreporting.org/resourcelibrary/GRIG4-Part1-Reporting-Principles-and-Standard-Disclosures.pdf. P. 3.

Analyst Calls

There is little doubt that the work of the above organizations will help companies create and communicate sustainable strategies. However, frameworks and standards are not a "silver bullet" for several reasons.

First, they will take time to develop. The IIRC and SASB are at especially early stages. Second, the usefulness of these frameworks and measurement and reporting standards depends on how well they are implemented and how many companies are using them. If information isn't prepared according to the recommended standards, quality and comparability will be negatively affected. Even if the quality of the information is high, investors will find it difficult to do comparative analyses, a key component for many of them in their stock picking. This too will take time. Not a single country has mandated the use of the IIRC framework, the GRI's G4 Guidelines, the CDSB's CCRF, or SASB's sector-specific standards.[30] We don't expect this to change any time soon although, to varying degrees, governments are beginning to pay more attention to nonfinancial disclosure.[31] Imagine a world in which no financial reporting standards existed—or even if they did, companies weren't required to use them and report on them. That is the state of the world today for sustainability or nonfinancial reporting.

This lack of established and mandated frameworks and standards should not discourage companies from explaining their sustainable strategy to the market. The company's commitment to material ESG issues should be viewed in the same way as other important strategic initiatives, such as major capital investments in new plant and equipment, major R&D programs, important new product development efforts, and expansion into new market segments and geographies. If sustainability is as core to strategy as CEOs are claiming in the Accenture/Global Compact survey, doesn't it deserve the same degree of attention? Yet, as we noted earlier, this same survey found a gap between the perceived importance of reporting on sustainability and the extent to which they were actually doing so.

For public companies, the two most important mechanisms by which they report on their performance are the annual report and quarterly earning conference calls. We will examine both of them using the case of SAP. SAP is a good example because it is clearly committed to developing a *sustainable strategy*, as opposed to just a sustainability strategy. It also practices integrated reporting. Nevertheless, we will show that corporate reporting and quarterly analyst calls are two separate worlds that live very much apart from each other. Each has its own story, with a different narrator and a different audience.

The Story of Sustainability: SAP's Integrated Report

SAP has clearly integrated sustainability into its financial reporting. In explaining the company's decision to publish its first integrated report for its 2012 fiscal year, the report said:

Considering our past financial results and our financial outlook alone does not adequately capture our ability to respond to today's challenges or how we create value. Instead, our future success hinges on how well we holistically navigate the social, environmental, and economic contexts in which we operate."[32]

SAP is a member of the IIRC's Pilot Programme Business Network[33] (and for background on the company, see box inset). Prominently displayed on the company's "Integrated Report 2012" website is a video of co-CEOs Bill McDermott and Jim Hagemann Snabe. There, after describing the company's "vision" to "help the world run better and improve people's lives," Snabe argues that SAP's future can best be ensured by improving its social, environmental, and economic performance—and by helping its customers do the same. And when explaining the company's decision to combine its separate annual financial and sustainability reports into a single integrated report, he states: "Changing our report reflects how our approach to our business has evolved. We no longer talk about how we can create a sustainability strategy. We are focused on making our corporate strategy sustainable."

Overview of SAP

SAP, based in Walldorf, Germany, is a 41 year-old enterprise application software company with 2012 revenues of €16.22

30. South Africa is the only country to have mandated integrated reporting but it does not specify what the format of the report should look like. Eccles, Robert G., George Serafeim, and Pippa Armbrester. "Integrated Reporting in South Africa." Harvard Business School Case 413-038, September 2012. (Revised November 2012.). The third King Report on Corporate Governance (King III), which requires companies to issue integrated reports, was adopted by the Johannesburg Stock Exchange on March 1, 2010.

31. In October 2011 the European Commission published a new policy on corporate social responsibility. It states that to fully meet their social responsibility, enterprises "should have in place a process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders." The aim is both to enhance positive impacts - for example through the innovation of new products and services that are beneficial to society and enterprises themselves - and to minimise and prevent negative impacts." Corporate Sustainability Reporting, "European Communication of 25 October 2011," http://www.reportingcsr.org/european_union-p-42.html, accessed August 30, 2013. The "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: A renewed EU strategy 2011-14 for Corporate Social Responsibility" includes a section on "Improving company disclosure of social and environmental information" which states that "All organisations, including civil society organisations and public authorities, are encouraged take steps to improve disclosure of their own social and environmental performance." European Commission, "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: A renewed EU strategy 2011-14 for Corporate Social Responsibility," October 25, 2011, http://www.reportingcsr.org/european_union-p-42.html, P. 12.

32. SAP Integrated Report 2012, "Why Integrated Reporting?" http://www.sapintegratedreport.com/2012/en/about-this-report/why-integrated-reporting.html, accessed August 26, 2013.

33. The IIRC Pilot Programme Business Network is a group of over 100 companies committed to providing the IIRC with structured feedback on key building blocks in the Framework to inform its development and practical application and to build business momentum towards implementation of <IR>.

billion and an operating profit of €4.06 billion, for a healthy 35% margin. In its fourth quarter of 2012, the company achieved its 12th consecutive quarter of double-digit growth in software and software-related services revenues. In August 2013 the company, which is traded on both the Frankfurt Exchange and the New York Stock Exchange, had a market capitalization of around €70 billion, making it about the 62nd largest company in the world in terms of market cap and the third largest independent software company. In 2012, SAP's stock price rose 48.6%, outperforming benchmark indices.[34] The company's 65,500 employees in more than 130 countries serve 248,500 customers in 188 countries. On its corporate website, SAP describes its mission as follows:

Our mission is to help every customer become a best-run business. We do this by delivering new technology innovations without disruptions: enterprise mobility will transform consumption of IT; in-memory technology will simplify the IT stack and drive high value applications; and the cloud delivery of IT solutions will become mainstream."[35]

SAP has a strong commitment to innovation and the organic development of its product portfolio, which is supplemented by selective acquisitions. The company sees its SAP HANA® platform as a key growth driver. This platform utilizes a unique in-memory database to enable its clients to combine their transaction and analytics' databases in order to process vast amounts of data on a real-time basis. Benefits include faster business discovery and innovation, enhanced visibility and responsiveness of core business processes, delivery of high-speed Big Data to all levels of the organization, and reduced IT ownership costs. Other important growth drivers are applications, analytics, cloud, and mobile applications.

The company's integrated reporting website also emphasizes management's conscious transition, as noted earlier, of "moving from having a sustainability strategy to creating a corporate strategy that is sustainable" since, according to one of its co-CEOs, "our future success hinges on how well we holistically navigate the social, environmental, and economic contexts in which we operate."[36] In further explaining its decision to issue an integrated report, the company cites the relationship between integrated reporting and integrated thinking and planning—that is, planning that takes account of how financial results and the management of natural and human resources affect one another, and how integrated thinking contributes to innovation (a big theme for SAP). Other benefits include increased transparency, new insights for customers, greater reporting efficiencies, and thought leadership.[37]

Of course, words alone do not demonstrate a true commitment to a sustainable strategy, and a truly integrated report is more than just putting some financial and nonfinancial performance metrics into a single document. SAP does much more than that. It explains its approach to materiality and how it changed in 2011.[38] Especially impressive is a section called "Connecting financial and non-financial performance." There the company explicitly articulates its view of how its (three) primary indicators of economic performance are related to its (eleven) main criteria for assessing its social and environmental impact, with academic studies often cited in support of such relationships.[39] For each indicator, the reader can see a diagram that shows SAP's view of how each of the different indicators are related to one another—that is, as cause, effect, or, in many cases, both. Very few companies that practice integrated reporting—including some of the most sophisticated that have been doing this for years—have tried to achieve this degree of analytical insight and rigor.

Figure 3 provides the example for "Employee Engagement," which the company defines as the level of employee commitment, pride, and loyalty. The figure illustrates, among other things, the company's recognition that a higher level of employee engagement has a positive impact on revenue and operating margin, and that such effects on revenue and profitability in turn help to further reinforce employee engagement. The figure also makes clear that SAP's internal capability-building (internal promotions vs. external hires) and high employer ranking (attractiveness of SAP as an employer as measured through external surveys) have a positive impact on employee engagement.

There are a number of other characteristics of SAP's integrated report that show the company's commitment to linking its reporting to a sustainable corporate strategy. The company sets targets and time frames for both financial and nonfinancial performance indicators. It defines each indicator and explains the methodology used in measuring it, as well as whether the reported figure has received an assurance opinion from the company's financial auditor, KPMG.

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34. The DAX 30 and Dow Jones EURO STOXX 50®, which cover 50 large companies from European countries, gained 29.1% and 13.8% in 2012, respectively. The U.S. Dow Jones Industrial Average index gained 7.3%, while the S&P 500 improved by 13.4%. The S&P North American Technology Software Index rose 16.7%, while the Technology Peer Group Index, which lists ten major technology companies, gained 11.6%. SAP Integrated Report 2012, "Investor Relations." http://www.sapintegratedreport.com/2012/en/to-our-stakeholders/investor-relations.html, accessed August 30, 201313.

35. SAP, "SAP at a Glance: Capital Market Information," Fact Sheet April 2013. http://www.sap.com/corporate-en/investors/pdf/SAP-Fact-Sheet-EN.pdf, accessed August 26, 2013.

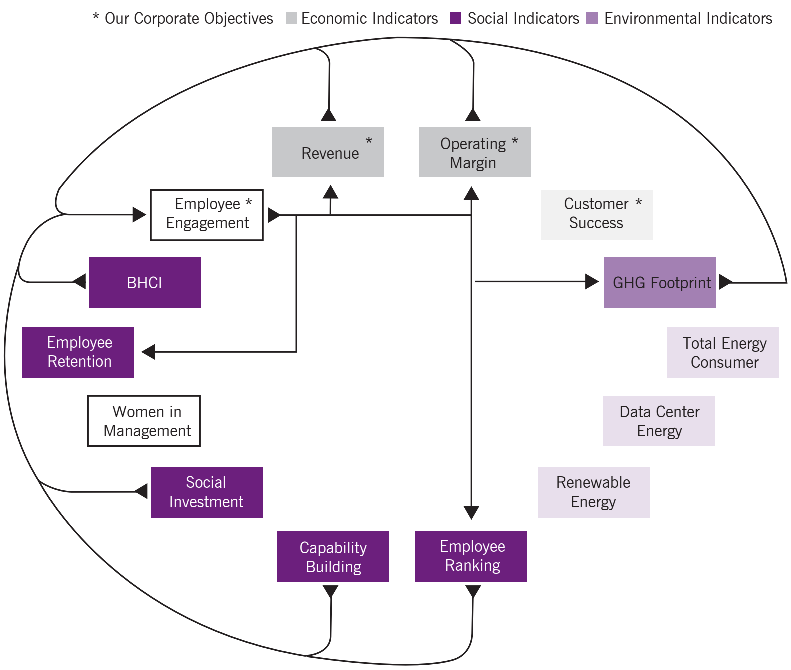
36. SAP Integrated Report 2012, "Why Integrated Reporting?" http://www.sapintegratedreport.com/2012/en/about-this-report/why-integrated-reporting.html, accessed August 26, 2013.

37. SAP Integrated Report 2012, "Why Integrated Reporting?" http://www.sapintegratedreport.com/2012/en/about-this-report/why-integrated-reporting.html, accessed August 26, 2013.

38. SAP Integrated Report 2012, "Materiality." http://www.sapintegratedreport.com/2012/en/about-this-report/materiality.html, accessed August 26, 2013.

39. SAP Integrated Report 2012, "Connecting financial and non-financial performance." http://www.sapintegratedreport.com/2012/en/key-facts/connecting-financial-and-non-financial-performance.html, accessed August 23, 2013.

Figure 3 **Relationship Between Employee Engagement and Other Key Indicators**



Source: SAP Integrated Report 2012, "Connecting Financial and Non-Financial Performance."
http://www.sapintegratedreport.com/2012/en/key-facts/connecting-financial-and-non-financial-performance.html
Accessed August 28, 2013.

The Story of Business: SAP's Quarterly Conference Calls

The subject of sustainability, in contrast to its extensive treatment on the company's integrated reporting website, goes virtually unmentioned in the company's quarterly earnings calls. As an example, consider the company's Q2 2012 earnings conference call that was held on July 24, 2012, about six months into its fiscal year. Representing SAP on the call were Stefan Gruber (Head of Investor Relations), Bill McDermott (Co-CEO), Jim Hagemann Snabe (Co-CEO), Werner Brandt (CFO), and Vishal Sikka (Executive Board Member). Market participants included eight financial analysts (from Morgan Stanley, Nomura, Deutsche Bank Research, Credit Suisse, Barclays, Baader Bank, and UBS) and six people from the media (Bloomberg, Financial Times Germany, Dow Jones, Reuters, information Week, and CRM Magazine).

The call began with Gruber making some standard disclaimers about forward-looking statements and he then turned it over to McDermott. After thanking Gruber, McDermott's first comment was this:

As you can see from the numbers, SAP's momentum continues. Q2 was our best-ever second quarter. We exceeded EUR1 billion in software revenue for the first time in a second quarter. We beat market expectations, delivering results at the high end of our guidance, with 26% year-over-year growth, 19% at constant currency, in software license sales.[40]

As would be expected in such a call, the discussion by SAP executives was focused on financial results (including non-IFRS results), the company's products (especially HANA, cloud, and mobile offerings), innovation, customers, and acquisitions. Given the statements in the company's 2012 integrated report about shifting from a sustainability strategy to a sustainable corporate strategy, one might expect at least some mention of this in a quarterly call. Yet an analysis of the transcript for this call, including the Q&A portion, shows that the terms "sustainable" and "sustainability" weren't mentioned a single time in either the presentation or Q&A. Common questions in the Q&A were about the company's pipeline, getting more visibility into the next quarter, the sales cycle, head count, HANA, and cloud.

To be sure, quarterly calls are carefully scripted events that must adhere to regulatory guidelines in the disclosure of information. Yet none of these regulations precludes a discussion of strategy. In fact, a publication of the National Investor

40. Thomson Reuters Street Events, "SAP.DE – Q2 2012 SAP AG Earnings conference Call," July 24, 2012/11:00 AM GMT. Accessed through ThomsonOne.

Relations Institute (NIRI) on best practices for earnings releases specifically states that strategy is an important topic to discuss. For example, in discussing the template for the content of the earnings release statement, NIRI suggests that the company "Place the quarter's results in the context of the company's near and long-term goals and/or strategies."[41] In SAP's Q2 2012 call, strategy was mentioned five times in the presentation and 11 times in the Q&A.

Using a 430-item taxonomy of keywords we developed for analyzing corporate reports and analyst calls, we conducted a simple word count for this call and for the three calls that preceded it. One-half (52%) of the keywords identified were about financial performance, with the three most frequently mentioned terms being "revenue," "earnings," and "margin." Social terms accounted for 32% of the identified keywords, largely due to use of the top word "customer." Governance terms accounted for 16% of the keywords, and not a single environmental term from our taxonomy was used.

The New Analyst Call: A New Format for the Story of Sustainability

These findings about SAP's quarterly earnings calls will not come as a surprise to anyone who is familiar with such calls. At the same time, since analyst calls are one of the major opportunities for a company to communicate with the market, executives are clearly missing an opportunity to use the calls to explain the importance of sustainability to the company's strategy.

But, of course, there is a "chicken-and-egg" problem here. Companies complain that analysts never ask questions about sustainability, so why should they bother talking about it? Analysts' and investors' response is that since the company determines the content of the call, if the company isn't talking about sustainability, it must be because it really doesn't think it's all that important. So why should they ask about it?

ESG Investor Briefing Project

Both the UN Global Compact and the Principles for Responsible Investment are aware of the need to change the conversation if sustainability is going to become a more important topic in how the markets allocate resources. To that end, the two organizations decided to launch "The ESG Investor Briefing Project," which "is designed to improve company-investor communications on material environmental, social and corporate governance (ESG) information."[42] The two organizations explicitly modeled this call, also referred to as "The New Analyst Call," on the quarterly conference call.[43] As of the date of this writing, the following companies had hosted ESG Briefings: SAP (July 30, 2012), Enel (October 24, 2012), Pirelli (March 13, 2013), Eni (May 13, 2013), and Norsk Hydro (June 5, 2013).

With the aim of providing guidance for companies interested in or intent on hosting an ESG Investor Briefing, the two organizations published a document on June 16, 2012 that discusses the general objectives of the project, what the introductory remarks on the call should be, and the format, content, and logistics of the briefings.[44] The purpose of this document is to help design the calls to attract mainstream investors by showing management how to make their case for sustainability as a critical part of a sustainable strategy.

The two most important objectives of such ESG briefings are (1) the development of a general framework for communicating about ESG value drivers that investors will find useful and (2) the prioritization of company- and industry-specific ESG issues of relevance to investors. In their introductory remarks, companies are encouraged to explain their sustainability initiatives in the context of three critical investor concerns:

- growth (with focus on new markets and geographies, new customers and market share, product and services innovation, and long-term strategy);
- return on capital (with emphasis on operating efficiency, human capital management, and reputation pricing power); and
- risk management (operating and regulatory risk, reputational risk, supply chain risk, and leadership and adaptability).

In terms of format, "must haves" include the participation in the call of the CEO and CFO. Another "must have" is that the company's head of sustainability participate, in collaboration with investor relations, in the preparation for the call—and if possible the call itself—as a way of breaking down the barrier between these two functions. "Must haves" for content include a focus on sustainability as an integral part of business strategy and thus of interest to "mainstream investors," a short explanation at the beginning of the call of the investment case for sustainability, and the presentation of examples of how sustainability initiatives have contributed to financial outcomes. The logistics of these briefings are modeled on quarterly earnings calls and they were open to all interested institutional analysts and investors, using a webinar facility to facilitate the Q&A session.

SAP's ESG Briefing Call

As already noted, the first company to host an ESG Investor

41. National Investor Relations Institute, "Standards of Practice for Investor Relations: Earnings Release Content," June 2013.

42. Principles for Responsible Investment and UN Global Compact, "ESG Investor Briefings," http://www.unglobalcompact.org/issues/financial_markets/esg_investor_briefings.html. Accessed September 3, 2013.

43. The calls were hosted on the PRI's platform and advertised in a variety of ways, including asking the participating company to let all of their investors know about the call. Because these calls were on material issues, the same legal rules were followed by companies as they do for earnings calls. Recordings of the calls were posted on the UNGC website within 24 hours.

44. Principles for Responsible Investment, "ESG Investor Briefing: A new framework for communicating ESG value drivers at the company-investor interface," June 16, 2012, http://www.unglobalcompact.org/docs/issues_doc/Financial_markets/ESGInvestorBriefingFramework.pdf, accessed August 27, 2013.

Briefing was SAP. The briefing took place on July 30, 2012, six days after its Q2 2012 earnings call.[45] Participants from SAP were Peter Graf, Chief Sustainability Office and Executive Vice President of Sustainability Solutions, and Stephan Foerster, Director of Investor Relations. None of the participants on the Q2 2012 call (including the Co-CEOs, the CFO, and the Head of Investor Relations) was on this call. Similarly, none of the 23 analysts who participated in the ESG briefing attended the Q2 2012 call and none of the participants in the earnings call attended the ESG briefing. Only two institutions were represented on both calls: Deutsche Bank and UBS—and in both cases these were sustainability analysts, not sector analysts.

And whereas all of the financial analysts on the quarterly calls were from the sell-side, the vast majority of the participants on the ESG briefing were from the buy side. These included SRI funds (such as Calvert Investment Management and Trillium Asset Management), large pension funds with a commitment to ESG integration throughout their portfolios in all asset classes (such as CalPERS and CalSTRS), analysts from specialist sustainability organizations (such as EIRIS and SustainAbility), and "mainstream investors" (including Standard Life Investments and Wespak Investment Management). This example is consistent with the common belief that the sell-side is largely focused on short-term earnings results whereas the buy side, or at least a significant part of it, has a longer-term orientation and is thus less concerned with quarterly earnings.

In comparing the calls, it was two different narrators speaking to two different audiences, with the ESG briefing being very similar to the integrated reporting story in terms of the story being told. But the stories on the two types of conference calls were very different. In the ESG briefing, the term "sustainable" was mentioned four times in the presentation and once in the Q&A, "sustainability" 35 times in the presentation and 10 times in the Q&A, and "strategy" eight times in the presentation and three times in the Q&A. In his presentation, Graf made the distinction between a "sustainability strategy" and a "sustainable strategy," and then provided some background on how this evolution took place. He also emphasized the importance of setting targets for both financial and nonfinancial performance, of having high levels of internal transparency around performance metrics, and the importance of supporting cases—all of which are emphasized on the company's integrated reporting website as well. As would be expected, there was a much more balanced use of the keywords in our taxonomy: environmental at 34%, financial at 22%, governance at 23%, and social at 21%.

In its briefing, SAP followed many of the recommendations made by the PRI and UN Global Compact. The presenters explained the strategy and business model of the company, the role of innovation, important new products and services, the relationship between sustainability and innovation, the relationship between sustainability and employee engagement (89% of employees say it is important to them), and how sustainability topics are related to business objectives such as reducing carbon emissions (which is also a driver of manufacturing efficiency). They also discussed how social projects improve employee engagement and drive innovation to create new customers, how employee engagement improves customer satisfaction, and how employee engagement and customer satisfaction are leading indicators of future revenues and profits.

The emphasis given to the importance of employee engagement stands in somewhat ironic contrast to the answer Co-CEO McDermott gave to a question about the increase in headcount in the Q2 2012 call: "In terms of headcount in sales, smart sales organizations invest in the early part of the year so they can get the leverage and the tailwind in the back end of the year. That's what we anticipate to do. So you shouldn't expect a whole bunch of hirings; you should expect a whole bunch of executions." The analyst who asked the question was clearly pleased with this answer: "Perfect. I like that. Thanks."

During the Q&A session of the ESG Briefing, two questions were raised about reporting. The first concerned the company's decision to shift from quarterly to annual earnings guidance. Anita Green of Wespak Investment Management asked, "Can you discuss your experience in shifting from quarterly to annual earnings guidance? Quarterly earnings can undermine long-term sustainability. As a long-term investor, I applaud the focus, but it's a bold move. Has the reward been greater than the risk?" Although this question was never directly answered, it serves to illustrate the tension between quarterly results and a sustainable strategy. And despite this shift in guidance, in the quarterly calls a great deal of emphasis as still given to quarterly performance, particularly as compared to the same quarter in the previous year, and to the number of consecutive quarters of higher earnings.

The second question was from Jennifer Coulson of BCIMC, an asset owner in Canada, who asked: "How much of the ESG performance data is included in your mainstream investor relations presentations? Are you seeing more of a convergence in these two spheres?"

Graf's response, in which he noted the "chicken and egg problem," was telling. It illustrates that there are basically two stories being told: one to short-term oriented sell-side analysts on the quarterly earnings calls, and one to long-term investors through the ESG briefing and the company's integrated reporting website. He replied:

45. The presentation, transcript, and audio recording for this call are available at the UNGC's ESG Investors Briefing page. http://www.unglobalcompact.org/Issues/financial_markets/esg_investor_briefings.html, Accessed August 8, 2013.

We always have all the information available during the usual investor call, and we are ready to answer the question. But the question isn't asked. So that's why I playback to you. If you would like to have this type of information covered in the usual investor call, just start asking the questions and we will include it. Right now, I'm always putting the information there. We have the slides, but the question doesn't come and usually, our financial numbers draw so much attention that there are so many questions around that. The sustainability angle gets a little short. You can really help the transformation by starting to ask the question. But do we believe that integrated reporting is the way to go? Absolutely. Yes.

Aftermath of SAP's ESG Briefing Call

Since this was SAP's first ESG Investor Briefing—and the first one done as part of the ESG Investor Briefing Project—it is perhaps to be expected that the presenters, participants, and content would be different in comparison than those in an earnings call. The question that arises is whether doing this ESG briefing had any impact on subsequent quarterly calls.

We analyzed the next four calls after the ESG briefing and the clear answer is that this briefing had virtually no impact on the subsequent quarterly calls in terms of the presenters (the Co-CEOs, the CFO, and the Head of IR are back but the CSO is not), participants (none of those who attended the ESG briefing attended the next four quarterly calls), and content. For example, in the next quarterly call (for Q3 2012 on October 24) after the ESG briefing, sustainability was mentioned twice in the presentation (vs. none in the prior one) but did not come up in the Q&A.[46]

Turning Two Stories into One

The obvious question, then, is whether quarterly conference calls should look more like ESG briefings, turning two stories into one. We believe that the answer to this question is a definite "yes," although we also recognize the difficulties in making this happen.

We have four basic reasons for taking this position:

First, it is unlikely that most companies anytime soon are going to host an ESG Briefing. Even those that think this is a good idea will be reluctant to commit the necessary resources to do this additional call.

Second, even if many companies started adopting this practice, their experience is likely to be the same as SAP's—a different story to a different audience. Here it is impossible to untangle the presenters from the audience. Perhaps if the Co-CEOs, the CFO, and the Head of IR were on the ESG Briefing, more sell-side analysts would have joined.

Third, quarterly calls are an institutionalized mechanism for communicating to the market. Nothing precludes a company from talking about sustainability and its link to financial performance. Separate ESG briefings are the reporting analogue to having a sustainability strategy. They may be a good place to start, but eventually this content needs to be integrated into the quarterly call. This is as clear a signal as there can be that a company is focused on a sustainable strategy, not a sustainability strategy. And although a sustainable strategy doesn't change on a quarterly basis, talking about the company's financial results in the context of this strategy on a quarterly basis, if done right, provides the company with a periodic opportunity to make the case to investors that they should care about sustainability as well.

Fourth, unlike the company's reports (annual, sustainability, integrated, etc.), the quarterly call is a structured opportunity for the company to engage in a dialogue with its important analysts and investors since it includes a Q&A. Reports and earnings releases provide useful information to the investors, who then are likely to better understand the importance of such information by hearing directly from senior management and asking them questions about it.

We believe that as long as companies fail to make significant changes in the content and format of quarterly calls, even if supplemented with integrated reporting and ESG briefings, the market will remain skeptical about the importance of sustainability. This is particularly true of sell-side analysts, who have unusually short-term incentives since their compensation depends on the ability to generate brokerage commissions and investment banking business. But they are an important audience because of the influence they have on large numbers of investors, particularly the many small ones who do not have the resources to do substantial analysis on their own. So the sell-side will be a skeptical audience. The only way to combat this skepticism is for the CEO and the CFO, perhaps supported by the CSO, to put the company's sustainable strategy explicitly on the table as providing the context for the most recent financial results. This will also result in two audiences—short-term analysts and long-term investors—becoming one. The result will be one narrator telling one story to one audience.

Based upon the ESG briefings and some other studies, the ESG Briefing Project produced a report on how to better communicate about sustainability and its relationship to financial performance.[47] The report identified a number of opportunities and challenges that need to be pursued and addressed, including:

• Putting more financial context around ESG efforts and performance

46. There was virtually no change in word count in the four calls after the ESG briefing compared to the four prior to that. There is no statistical difference in the percentages in the categories of environmental (1%), financial (56%), governance (15%), and social (28%). It is clear that the story told in the ESG briefing had no impact on the story being told in the quarterly call.

• Communicating the underlying ESG investment case is challenging

• Examples are helpful, particularly when combined with financial data

• Highlight the strategic ESG accountability and responsibilities

• Quantitative ESG metrics need to be tracked

• It is a challenge to get commitment from top management

While these are certainly significant challenges, no company can claim that it has a sustainable strategy if it is not able to at least begin to address all of them. Otherwise, the company has, at best, a sustainability strategy and, at worse, it is "greenwashing."

The quarterly call is the ideal vehicle for providing the necessary discipline to address these challenges and it is ultimately the company's responsibility to convince the market, on both the buy-side and the sell-side, of the importance of sustainability. Integrated reporting provides a useful discipline for helping the company articulate its sustainable strategy, and an ESG Briefing call is a good first step in learning how to communicate this strategy to the market. But, ultimately, a sustainable strategy needs to be discussed in the usual quarterly calls. If it is not, the company should simply accept the fact that it has a sustainability strategy, not a sustainable strategy.

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47. Global Compact LEAD & Principles for Responsible Investment, "Enhancing Company-Investor Communication: Insights from the ESG Investor Briefing Project." http://www.unglobalcompact.org/docs/issues_doc/lead/Enhancing_Compacy_Investor_Communication_ESG_IB_Project.pdf, accessed August 27, 2013.