Evolution of corporate sustainability practices
Perspectives from the UK, US and Canada

AICPA, CICA and CIMA research study
December 2010
About CIMA

CIMA, the Chartered Institute of Management Accountants, founded in 1919, is the world’s leading and largest professional body of Management Accountants, with 172,000 members and students operating in 168 countries, working at the heart of business. CIMA members and students work in industry, commerce and not-for-profit organisations. CIMA works closely with employers and sponsors leading edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure it remains the employers’ choice when recruiting financially trained business leaders. 
www.cimaglobal.com/sustainability

About the AICPA

The American Institute of Certified Public Accountants is the national, professional association of CPAs, with more than 360,000 CPA members worldwide in business and industry, public practice, government, education, student affiliates and international associates. It sets ethical standards for the profession and U.S. auditing standards for audits of private companies, non-profit organizations, federal, state and local governments. It develops and grades the Uniform CPA Examination.
www.aicpa.org

About the CICA

The Canadian Institute of Chartered Accountants represents Canada’s CA profession both nationally and internationally. Chartered Accountants (CAs) are Canada’s most valued, internationally recognized profession of leaders in senior management, advisory, financial, tax and assurance roles. Through their integrity, expertise, and internationally recognized qualification standards, Canada’s 77,000 CAs sustain their influence and leadership position both in Canada and globally. As trusted business advisors to Canadian organizations of all sizes, Canada’s CAs foster confidence in Canadian business and contribute to the health and sustainability of Canada’s capital markets and economy. The CICA is a founding member of the International Federation of Accountants (IFAC) and the Global Accounting Alliance (GAA).
www.cica.ca/sustainability
Executive summary

Business sustainability is about ensuring that organizations implement strategies that contribute to long-term success. Organizations that act in a sustainable manner not only help maintain the well-being of the planet and people, they also create businesses that will survive and thrive in the long run. Leading companies recognize that successful sustainability performance translates to successful bottom-line business performance, and that investors are attracted to companies that act in a sustainable manner with a focus on long-term profitability and competitive advantage.

We live in an increasingly global community, where economic, environmental, and social issues transcend national and corporate boundaries. Our 21st Century challenges require 21st Century solutions and will require a co-ordinated response by the public and private sectors. Long-term business success will require that sustainable practices be deeply embedded in the DNA of all organizations. As companies innovate to better secure their long-term viability, the accounting profession will play an important role. Accountants can serve as leading agents for change by applying their skills and competencies to develop sustainability strategies, facilitate effective implementation, accurate measurement, and credible business reporting.

To gain a sense of the state of sustainability in the UK and North America, CIMA, the AICPA and CICA recently surveyed over 2000 organizational leaders from their respective memberships, and interviewed sustainability executives from leading organizations to examine key characteristics of business sustainability, and the level of finance function involvement in corporate sustainability initiatives. The AICPA, CICA and CIMA are all founding members of the Accounting Bodies Network of The Prince of Wales’ Accounting for Sustainability Project.

‘The finance function can add a lot of value in terms of making sure that information related to sustainability – particularly information that enters the public domain – is produced and managed with the necessary level of rigor.’

Jessica Fries
Director
The Prince’s Accounting for Sustainability Project (A4S)

Key findings

Although compliance with regulatory requirements still remains the most common driver of business sustainability, profitability and other strategic factors are also significant. The second ranked critical drivers differed between large and small companies:

• 34% of large organizations identified compliance as the top ranked critical driver; 32% identified managing reputational risk as the second most critical driver.

• 24% of smaller companies identified compliance as the most critical driver; 19% identified cost cutting and efficiency as the next most critical driver.

Large companies have more robust sustainability capabilities than small companies:

• 79% of larger companies surveyed currently have a formal sustainability strategy.

• 33% of smaller companies surveyed currently have a strategy; however an additional 23% have plans to formulate a strategy within the next two years.

The finance function’s contributions to organizational sustainability programs are highly valued, yet underdeveloped:

• 56% of respondents said that finance play a role in business case/ investment analysis in relation to sustainability programs.

• 33% are tracking sustainability related performance measures.

UK based organizations appear to be ahead of the curve in terms of implementing sustainability practices and finance function involvement compared to North American organizations.

1 As noted in the methodology section on page 19, the results may reflect a higher degree of interest in sustainability among respondents who opted to participate in the survey, and will not necessarily reflect the entire population.
Introduction

Today’s corporations face increasing expectations for taking an active role in meeting the world’s environmental and social challenges. The accounting profession has a critical role to play in helping to meet these challenges. As businesses and other organizations rise to the occasion by adopting and implementing sustainable business practices, it will be essential for finance and accounting professionals to assume a greater leadership position in sustainability, and bring their skills to bear to ensure the long-term viability of their organizations.

Accountants are well placed to oversee the integration of sustainable business practices into the DNA of their organization. They have the skill sets to provide the information, analysis and options to inform the right decisions and ensure organizations are creating strategies that mitigate environmental and social risks and focus on the long-term. In their role as information providers, accountants can be very influential; they can change mind-sets and influence decision making processes and reporting.

Corporate sustainability programs are evolving. Companies and their executives are increasingly recognizing the importance of sustainability to the future of their businesses. While many corporate sustainability initiatives began because organizations felt they had to (in response to compliance requirements) and/or that they should have them (in support of corporate values statements), more organizations now want to deploy sustainability programs to reap greater shareholder value. Rather than treating sustainability efforts exclusively as a response to legal and regulatory requirements, more organizations are now integrating sustainability activities into how they manage reputation risk, generate cost savings and ensure long-term profitability and competitive advantage. Corporate sustainability programs are also expanding in number across the spectrum of company size and industry sector. No longer solely the domain of the smokestack industry or large multinational conglomerates, organizations of all types and size are increasingly implementing sustainability programs and practices.

However, how these efforts look and operate varies tremendously by country, industry, company size and individual company. As with any rapidly evolving business discipline, organizational sustainability has yet to settle upon a standardized definition or approach. ‘If you walk into a room and start talking about sustainability you will find very quickly that almost everyone has an opinion and a different level of education related to sustainability’, notes Steve Leffin, Director of Global Sustainability for US based UPS’ corporate plant engineering. ‘This is largely because sustainability comprises a complex array of issues.’

To produce a snapshot of this evolution, the American Institute of Certified Public Accountants (AICPA), Canadian Institute of Chartered Accountants (CICA) and the Chartered Institute of Management Accountants (CIMA) conducted a survey of organizational leaders who are members of these associations. The survey, which defines sustainability as ‘the consideration of environmental and/or social issues in the value creation process along with the financial performance of the enterprise’, asked respondents questions in four areas:

1. Sustainability drivers and strategy.
2. Sustainability program scope and priorities.
4. The finance function’s involvement.

As noted in the methodology section at the end of the report, the results may reflect a higher degree of interest in sustainability among respondents who opted to participate in the survey, and not necessarily reflect the entire population.

In addition to survey results from a total of more than 2,000 respondents (who are primarily CFOs and other corporate finance executives and managers), this report contains insights from executives who manage current organizational sustainability programs in the United States, Canada and the United Kingdom.

We conducted this survey and accompanying field interviews and research to gain an understanding of the status of sustainability initiatives in the companies of our members in the US, UK, and Canada, and to understand how and where the finance function and accountants are playing meaningful roles in sustainability programs. By supplementing the survey findings with practical examples of current sustainability practices, this report is intended to help organizations close the gap between what they have from a sustainability perspective, and what they need.
Ten elements of organizational sustainability

‘There is a desperate need for the finance function to be involved in ensuring the quality of sustainability-related information,’ asserts Jessica Fries, director of The Prince’s Accounting for Sustainability Project (A4S) based in the United Kingdom (UK), ‘and the effectiveness of the controls around this information.’

Sustainability programs also can benefit from finance and accounting function contributions in several other areas as well, including many of the following elements the A4S defines as integral to embedding sustainability within organizations:

Strategy and oversight
1. Board and senior management commitment.
2. Understanding and analyzing the key sustainability drivers for the organization.
3. Integrating the key sustainability drivers into the organization’s strategy.

Execution and alignment
4. Ensuring that sustainability is the responsibility of everyone in the organization (and not just of a specific department).
5. Breaking down sustainability targets and objectives for the organization as a whole into targets and objectives which are meaningful for individual subsidiaries, divisions and departments.
6. Processes that enable sustainability issues to be taken into account clearly and consistently in day-to-day decision-making.
7. Extensive and effective sustainability training.

Performance and reporting
8. Including sustainability targets and objectives in performance appraisal.
9. Champions to promote sustainability and celebrate success.
Section 1: Sustainability drivers and strategy

Sustainability drivers

Among all survey respondents, compliance and regulatory requirements remain the most commonly-cited critical driver for both large companies (34%) and SME companies (24%). SME respondents identify ‘efficiency and cost savings’ (19%) as the second most common driver. The second ranking critical driver for large companies was ‘reputation/brand risk management’ (32%), followed by ‘achieving competitive advantage and long-term profitability’, ‘efficiency and cost savings’, ‘the value set of the company and/or its leaders’, and ‘customer demand for sustainable products’, respectively (see charts 1 and 2).

Respondents across all groups were consistent in the factors that drive their organizations’ sustainability efforts, with some exceptions. For example, CICA respondents identify ‘managing risk to the reputation of your company/brand’ as the most important driver of organizational sustainability. CIMA respondents identify the same risk-management driver as well as ‘compliance with legal and regulatory requirements’ (almost equally) as the most important motivations for implementing sustainability programs. AICPA respondents identify ‘compliance with legal and regulatory requirements’ and ‘efficiency and cost savings’ (equally) as the two most important drivers of organizational sustainability.

‘A major part of our sustainability effort is to support our sales and marketing team in gaining access to new market segments, reinforcing our pricing strategies and improving our customer mix so that there is a strong fit between our product offer and what different segments of the market value.’

Lyn Brown
Vice President Corporate Relations and Social Responsibility, Catalyst Paper

Bottom line sustainability drivers

Roughly three years ago Marks & Spencer launched Plan A, a five-year road map to spend £200 million to improve sustainability performance by 2012. Within two years, the retailer announced that Plan A was ‘cost positive’; the investment began delivering financial returns in 2009. For its part, GE’s Ecomagination business line’s revenues have not only grown in a bruising economy (to a reported $18 billion in 2009), but news coverage of these results has become so frequent and widespread that the value of the company’s reputation and brand has undoubtedly benefited from its investment in energy efficient products. This benefit helps explain why GE invested U.S $1.5 billion in Ecomagination research and development last year, reaching its commitment to double its annual investment in this area one year ahead of time. In some cases, what begins as a legal requirement or risk-management response morphs into a business opportunity.

While GE, ASDA, Catalyst Paper and other sustainability leaders would currently identify competitive advantage or profitability as the primary driver of their sustainability programs, that was not always the case for some of these companies. For example, Marks & Spencer and Catalyst Paper did not originally start their sustainability programs with profitability in mind. Catalyst Paper’s sustainability effort originated in response to an environmental protest movement (see Catalyst Paper’s example on page 11). Success in its initial response later enabled Catalyst Paper to add a profitable bottom-line perspective to its sustainability capabilities.
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**Chart 1: Critical sustainability drivers - large companies**

To what extent are the following factors driving your company's sustainability efforts?

- Compliance with legal and regulatory requirements
- Managing risk to the reputation of your company/brand(s)
- Achieving competitive advantage and long-term profitability
- Efficiency and cost savings
- Value set of company and/or its leaders
- Customer demand for green/sustainable products
- Public scrutiny over labor, sourcing, or other business practices
- Employee attraction and retention
- Supply chain vendor requirements
- Government grants or other incentives

**Chart 2: Critical sustainability drivers – small and medium sized companies (SMEs)**

To what extent are the following factors driving your company’s sustainability efforts?

- Compliance with legal and regulatory requirements
- Efficiency and cost savings
- Achieving competitive advantage and long-term profitability
- Managing risk to the reputation of your company/brand(s)
- Value set of company and/or its leaders
- Customer demand for green/sustainable products
- Employee attraction and retention
- Government grants or other incentives
- Public scrutiny over labor, sourcing, or other business practices
- Supply chain vendor requirements
Sustainability strategy
In addition to examining the primary sustainability drivers identified by survey respondents, the survey also queried the level of formality and importance that organizations apply to the discipline. Among larger companies 79% currently have a sustainability strategy compared with only 33% of SMEs (see chart 3).

Just as company size matters in terms of the existence of a formal sustainability strategy, so, too does location (as determined by the country in which each respondent’s association is based). CIMA and CICA respondent companies are more likely than AICPA respondent companies to have formalized sustainability strategies.

Additionally, 81% of CIMA respondents from large companies (with formal sustainability strategies) report that their organization’s sustainability strategies address climate change compared to 49% of CICA respondents (from large companies with formal sustainability strategies) and 44% of AICPA respondents from large companies (with formal sustainability strategies).

CIMA respondents from larger companies (47%) also indicate that their organizations treat sustainability programs as a high priority more frequently than CICA (38%) and AICPA (33%) respondents (see chart 4). Larger companies also are more likely to create distinct sustainability offices – corporate functions responsible for executing sustainability strategy – within their organizational structures. While less than 14% of SMEs in any of the responding companies establish separate sustainability functions, 58% of large CIMA-respondent companies, 45% of large CICA-respondent companies and 36% of large AICPA-respondent companies elect to do so.

These international differences appear to support the perception that UK and other European companies generally are ‘ahead of the curve’ with sustainability capabilities compared to US based companies (while CICA respondent organizations appear more ‘European’ in their sustainability progress). These differences likely relate to several factors, including the existence of a Carbon Reduction Commitment Energy Efficiency Scheme, which is the UK’s mandatory climate change and energy saving scheme for large public and private sector organizations.

The survey findings throughout this report also show notable differences when comparing smaller organizations to larger corporations.

And while sustainability does not formally qualify as a high priority in a majority of respondent companies, a majority do indicate that sustainability considerations are included in their investment analyses (see chart 5). This finding suggests that sustainability represents enough of a priority to be integrated into investment decisions.

Chart 3: Formal sustainability strategy
Does your company have a formal strategy related to sustainability?

<table>
<thead>
<tr>
<th></th>
<th>SME companies</th>
<th>Large companies &gt; 1000 employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currently have</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AICPA</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td>CICA</td>
<td>24%</td>
<td>67%</td>
</tr>
<tr>
<td>CIMA</td>
<td>46%</td>
<td>88%</td>
</tr>
<tr>
<td>Plan to develop 1-2 years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AICPA</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>CICA</td>
<td>61%</td>
<td></td>
</tr>
<tr>
<td>CIMA</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Currently have ▪ ▪ ▪ Plan to develop 1-2 years ▪ ▪ ▪
**Chart 4: Sustainability as a high priority**

To what extent is sustainability a priority for your company?

<table>
<thead>
<tr>
<th></th>
<th>AICPA</th>
<th>CICA</th>
<th>CIMA</th>
<th>AICPA</th>
<th>CICA</th>
<th>CIMA</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME companies</td>
<td>17%</td>
<td>18%</td>
<td>20%</td>
<td>33%</td>
<td>38%</td>
<td>47%</td>
</tr>
<tr>
<td>Large companies &gt; 1000 employees</td>
<td>45%</td>
<td>58%</td>
<td>57%</td>
<td>58%</td>
<td>59%</td>
<td>64%</td>
</tr>
</tbody>
</table>

**Chart 5: Included in investment analysis**

Is sustainability considered by your company in evaluating any new investment decisions including capital or other investments?

<table>
<thead>
<tr>
<th></th>
<th>AICPA</th>
<th>CICA</th>
<th>CIMA</th>
<th>AICPA</th>
<th>CICA</th>
<th>CIMA</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME companies</td>
<td>45%</td>
<td>58%</td>
<td>57%</td>
<td>58%</td>
<td>59%</td>
<td>64%</td>
</tr>
<tr>
<td>Large companies &gt; 1000 employees</td>
<td>60%</td>
<td>64%</td>
<td>67%</td>
<td>64%</td>
<td>67%</td>
<td>70%</td>
</tr>
</tbody>
</table>
Case study: Woodbine Entertainment Group

Implementing sustainability, starting with social responsibility

About a decade ago, Woodbine Entertainment Group, a Canada-based horse-racing operator, started developing a sustainability program that primarily consisted of community investment activities. After achieving early success in its charitable efforts, the company expanded its definition of sustainability to include environmental efforts that also generate significant efficiency gains. Jane Holmes, Woodbine Entertainment Group’s vice president, corporate affairs and corporate social responsibility officer, notes that the structure and processes required of community-investment and other corporate social responsibility (CSR) initiatives translate well to environmental efforts.

The company’s not-for-profit status, a rarity in the horse-racing industry, made its community efforts stand out because very few not-for-profits in any industry make sizeable charitable donations. Woodbine is the only not-for-profit member of Imagine Canada, a national program that promotes public and corporate giving, volunteerism and support to the community. The benchmark of Imagine Canada membership involves donating 1% of pre-tax profits to charities. Woodbine Entertainment exceeds this requirement by donating a minimum of 3% of net revenues to charities each year.

The company formalized its community investment activities eight years ago. More recently, the company’s leadership realized it could apply similar procedural discipline to environmental initiatives – after investing roughly $12 million to replace a dirt horseracing track with a synthetic track. The move to a more forgiving track surface was intended to bolster safety for horses and jockeys; however, the company quickly discovered that the new surface did not require watering or nearly as much grooming by tractors.

To measure and report on its reductions in water usage and carbon emissions, Woodbine soon applied similar decision-making and tracking processes it previously used to manage its community investment efforts. The company subsequently built upon these efforts by:

- **Appointing sustainability officers**: Woodbine’s board of directors created the role of corporate sustainability officer (Holmes) and environmental officer to oversee the company’s activities in these areas.

- **Establishing a ‘green action team’**: A team of middle managers and front-line staff work together to identify potential savings that can be generated through environmental projects, such as waste reduction, the use of solar-powered external lighting and rebates from electric providers and government agencies from the move to more energy-efficiency systems within its aging facilities.

- **Involving the CFO**: If an environmental initiative proposed by the green action team is approved the Green Steering Committee, comprised of the Company’s CSR Officer, Environmental Officer, Senior VP Operations, Director of Energy Manager, Sr. Manager of CSR and Director of Purchasing, creates a business case that is then presented to the CFO for evaluation. The environmental officer, who also serves as the company’s director of property development, also reports to the CFO.

- **Measuring employee and customer perceptions**: To keep tabs on the effectiveness and value of its sustainability efforts, Woodbine measures employees’ perceptions of the sustainability program in engagement surveys (recent results of which suggest that sustainability marks a ‘very strong driver’ of employee engagement, Holmes notes) and customer exit surveys. More than 80% of customers leaving Woodbine’s race tracks indicate that the company’s sustainability programs positively influence their decision to do business with Woodbine.
Section 2: Sustainability elements and business areas

Sustainability elements

Among all survey respondents, the following elements rate as high priorities within current sustainability efforts: energy usage (described as a high priority by 36% of all respondents), recycling (27%), water usage (23%), employee well-being and benefit programs (21%), community involvement (18%) and social issues (17%), respectively (see chart 6).

Energy usage represents the top priority, in large part, because companies appear interested in applying sustainability programs to help eliminate waste and reduce costs. For their part, greenhouse gas emissions reductions represent a developing measure in the majority of current sustainability programs. Less than 15% of all respondent companies currently rate greenhouse gas emissions reductions as an important element of their sustainability programs. This importance may vary in the future, in light of possible regulatory changes as well as the ongoing development of metrics and reporting protocols, such as the Greenhouse Gas Protocol (GHG Protocol) jointly developed by the World Resources Institute and the World Business Council for Sustainable Development as well as the Global Reporting Initiative (GRI).

In the survey, sustainability priorities remain fairly consistent in the UK, US and Canada, with some minor exceptions. First, a significantly larger portion of CIMA respondents (41%) rate energy usage as a high priority as compared to AICPA respondents (31%) and CICA respondents (33%). As noted before, this difference may be attributed, at least in part, to the carbon emissions regulations in the UK. Second, a larger portion (25%) of AICPA respondents rate ‘employee well-being and benefit programs’ as a high priority sustainability element compared to CICA respondents (20%) and CIMA respondents (18%). Third, CICA respondents appear to place higher emphasis on water and chemical waste disposal processes, which may reflect priorities and demands related to Canada’s resource-based economy.

Chart 6: Elements of sustainability - high importance

Rate the importance of the following aspects of sustainability in your company
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Sustainability business areas

Sustainability is not a one size fits all proposition. Sustainability impacts and opportunities are very context-dependent. What is important to one company is not necessarily important to another. Effective sustainability initiatives are closely linked to company strategy, and successful companies evaluate their sustainability impacts, risks and opportunities across their entire value chain from product design through the use and ultimate disposal by or recovery from, the end customer; from the supply chain, facilities and operations, through to distribution and logistics.

Facilities (34%) and operations (34%) were the highest priority business areas according to survey respondents, followed by product design (29%), customer use of products (29%), supply chain (25%), end of life product disposal/recovery (21%) and distribution and logistics (20%). Though the relative ranking of areas is similar across large companies and SMEs, the latter group is less likely to classify these issues as a high priority.

‘In the highly regulated horse-racing industry we think we have a strong reputation with our regulatory and government partners, in part, because of the sustainability work that we do.’

Jane Holmes
Vice President Corporate Affairs, Corporate Social Responsibility Officer, Woodbine Entertainment

Success breeds success

Woodbine Entertainment Group, a Canadian horse-racing operator, built a broad sustainability program on the foundation of a successful community investment initiative (see the case study on Woodbine Entertainment Group on page 8). Success within one element of sustainability capability can help engender success in other sustainability elements, along with other benefits. Woodbine Entertainment’s recent improvements to its race track were designed to strengthen the safety of horses and jockeys while also reducing water usage and carbon emissions. As a result, many of these practices now serve as industry best practices, as established by the National Thoroughbred Racing Association, throughout North America. This achievement has not gone unnoticed by regulatory authorities. ‘In the highly regulated horse-racing industry’, notes Jane Holmes, Woodbine Entertainment Group’s Vice President, Corporate Affairs and Corporate Social Responsibility Officer, ‘we think we have a strong reputation with our regulatory and government partners, in part, because of the sustainability work that we do.’

Chart 7: Business area - high priority

To what extent are the following business areas a priority for your company’s sustainability efforts?

Facilities (buildings)
Operations (processes)
Product design
Customer use of products
Supply chain (supplier/product selection)
End of life product disposal by/recovery from customers
Distribution and Logistics

0% 10% 20% 30% 40% 50%
Case Study: Catalyst Paper

Sustainability as an ‘and’ business

Canada-based Catalyst Paper Corporation treats sustainability as a business discipline – one that addresses a broad scope of risks and opportunities, and one that benefits from finance and accounting expertise.

The Richmond, British Columbia-based company is the largest producer of mechanical printing papers in western North America, the only producer of lightweight coated paper in western North America and one of the largest producers of directory papers in the world.

‘Our cost reduction practices are not an either-or proposition’, notes Lyn Brown, Catalyst Paper’s Vice President, Corporate Relations and Social Responsibility. ‘We always have two objectives in mind: one, reduce costs; and two, improve our value proposition in a marketplace that is leaning greener. Zero-sum trade-offs are not effective; instead we strive for an ‘and’ business discipline around sustainability. Our finance and accounting experts help us embed sustainability considerations throughout the business rather than isolating them in a department so that we are all mindful of the costs and the opportunities that lie within our reach.’

Catalyst Paper’s sustainability capability grew in response to the environmental campaigns of the early 1990s. As a manufacturer, Catalyst Paper sources fiber from third parties and 87% of the supply is waste wood and recovered waste paper. Still, the company is associated with the forest sector and the need to respond to environmental protest marked its early sustainability initiatives. More recently, Catalyst Paper has shifted gears to identify business and market opportunities – including access to new customer segments and cost-savings – it could leverage through sustainability discipline.

Today, Catalyst Paper identifies, accounts for, reports, manages and considers sustainability risks and opportunities along the entire business value chain, including:

- **Inputs**: Catalyst has implemented a chain of custody at all manufacturing facilities to provide customers with transparency on fiber sourcing, with third-party verification to known international standards and certainty of compliance with all relevant national and international logging laws.
- **Manufacturing**: Catalyst has steadily reduced the waste produced and water consumed in its manufacturing processes. The company’s ‘use less, waste less’ efficiency focus ensures production volumes are driven by customer orders.
- **Transportation**: Catalyst Paper is a registered partner with the United States Environmental Protection Agency’s SmartWay™ transportation program, which requires the company to meet fuel efficiency and emission reduction targets through the prudent use of intermodal shipping, full load planning, and pick-up and delivery scheduling.
- **Paper lifecycle**: The company participates in the Paper Life Cycle project, a multi-stakeholder effort that promotes greater understanding of the full range of issues in the paper supply chain, including climate change, forest management practices, recycling, illegal logging, energy use and product performance among other topics.
Section 3: Measurement, reporting and assurance

Measurement

The survey results show that the majority of measurement and verification processes within sustainability programs currently focus on energy usage, water usage, employee well-being programs and recycling. The measurement and verification of sustainability metrics represent a facet of sustainability programs that may be ripe for greater contributions from finance and accounting managers (see charts 8 and 9).

Energy usage is the most frequently measured sustainability element by all respondents, led by CIMA respondents (79%), CICA respondents (70%) and AICPA respondents (54%). Overall, CIMA and CICA respondents are more likely to measure various sustainability elements compared to AICPA respondents. Only 9% of AICPA respondents indicate that their companies measure greenhouse gas emissions reductions compared to 17% of CICA respondents and 21% of CIMA respondents.

A similar pattern exists among survey respondents when it comes to verifying internal sustainability measures. Less than a third of respondents that measure some aspect of sustainability indicate that their companies verify energy usage measures (see chart 9). Fewer than one-quarter of all survey respondents say that their companies verify internal sustainability measures related to water usage, recycling, waste water discharge, employee well-being and every other measurable sustainability element. Thirty four percent of CIMA respondents, 38% of AICPA respondents and 47% of CICA respondents indicate that their organizations do not verify the measurement of any sustainability elements.

Chart 8: Sustainability elements measured

Indicate whether each of the following aspects of sustainability is measured by your company

- Energy usage
- Water usage
- Employee well-being and benefit programs
- Recycling
- Community involvement/support
- Forest products usage – paper, packaging, wood
- Social issues/causes (health, education, other)
- Other solid waste reduction
- Waste water discharge
- Chemical waste minimization
- Human rights (e.g. child labor)
- Reduction of airborne pollutants
- GHG emissions reductions
- Response to potential climate change impacts (water availability, severe weather events, rising sea levels, etc.)
- Biodiversity/habitat protection

0% 20% 40% 60% 80% 100%
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Chart 9: Sustainability elements verified
Indicate which, if any, of the aspects of sustainability that are measured by your company, are independently verified

Chart showing sustainability elements verified

Thoughts on sustainability measurement
Executives among companies with leading sustainability practices typically emphasize the important role that rigorous measurements and comprehensive reporting and assurance processes play in the success of their programs.

‘Accuracy in measurement is an essential first step in the sustainability process’, asserts UPS’ Leffin. ‘In the short term, this accuracy enables you to understand if you are acting and reporting appropriately. Over the long term, customers, governments and agencies are going to ask you for your sustainability numbers – via an accepted protocol and verified by third parties.’

Measuring sustainability elements like energy usage, employee well-being progress and greenhouse gas emissions reductions is important because these measurements serve as the foundation of an effective sustainability report. ‘The primary tenet of sustainability is transparency’, Leffin notes. ‘Transparency means more than relaying the good news; it means communicating the challenges, what you’re doing, what you are thinking about doing and what you did – all of which should be written in specific terms that people can easily understand. If sustainability reporting is to be credible – as it necessarily must be when reports contain information that qualifies as material to financial performance – the process must be disciplined, comprehensive and, above all, accurate. Reports with accurate numbers convey meaningful information to stakeholders, including shareholders and others who help value the company.’

‘Sustainability reports are based on metrics, and each business has many unique measures’, Leffin continues. ‘That’s the challenging part because this is about more than just a number. The important part of transparency is sharing how the company produces its numbers and how and why it stands behind its numbers. This proof gives a sustainability report meaning because it establishes credibility. If you don’t have a third party providing assurance, you really don’t know how credible the report is.’
Reporting and assurance

Less than one-third of all respondents currently include sustainability information in their external reports. Large companies are much more likely to do so than small to medium-sized enterprises (see chart 10). Among large companies that incorporate sustainability information into their external reporting, 29% include sustainability information in their annual reports, 17% publish separate sustainability reports and 13% do both.

Among responding companies that share sustainability information in formal external reports, 73% do not request assurance for this information via a third party; 13% request assurance via an external firm (other than a professional accounting firm); 8% request ‘reasonable assurance’ through a professional accounting firm performing an attest engagement and 5% request ‘limited assurance’ through a professional accounting firm conducting a review engagement (see chart 11).

When breaking down the survey results by country, CIMA respondents are more likely than their AICPA and CICA counterparts to request assurance – both reasonable and limited assurance performed by professional accounting firms, or assurance performed by a different external expert.

It is interesting to note that nearly 30% of all large-company respondents indicate that their organizations include sustainability reporting in their annual reports. Although the exact nature (and quality) of these efforts cannot be confirmed through this type of survey, this result suggests that nearly one-third of companies conduct some form of combined sustainability reporting, which is what many sustainability experts advocate.

‘To sufficiently “keep up”, every company should probably consider a roadmap to combined reporting’, Leffin notes. ‘That does not mean you are going to combine reports tomorrow. Instead, it means that you are going to seriously consider the relationship of sustainability and financial reporting and find ways to evolve in a credible and transparent way toward combined reporting as it best applies to your organization.’

Chart 10: External reporting

Does your company report on sustainability?

<table>
<thead>
<tr>
<th></th>
<th>SME</th>
<th>Large &gt; 1000 employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Separate report</td>
<td>6%</td>
<td>17%</td>
</tr>
<tr>
<td>Annual report</td>
<td>8%</td>
<td>29%</td>
</tr>
<tr>
<td>Both</td>
<td>2%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Chart 11: Assurance and sustainability

Which of the following best describes the assurance provided on your company’s externally reported sustainability information?

- No Assurance
- Assurance provided by someone other than a professional accounting firm
- Reasonable assurance provided by a professional accounting firm performing an audit/attest engagement
- Limited assurance provided by a professional accounting firm performing a review engagement
Case study: UPS

Approach to assurance

US based logistics company UPS began reporting sustainability data in 2003 (when it reported its 2002 information). In 2010, UPS hired its external auditor, Deloitte, to provide assurance on its sustainability report. ‘As is the case with accounting, third-party assurance and the value it brings to one’s credibility is not a “nice to have” – it is necessary’, asserts Steve Leffin, director, global sustainability, for UPS.

The assurance process, which lasted roughly six months, benefits UPS’ sustainability process in three ways, Leffin reports. First, it serves as an ‘internal lever’ by confirming the importance of sustainability reporting throughout the global organization. Second, the third-party review fortifies the credibility of UPS’ annual sustainability report by verifying the accuracy of the numbers and the meaning of the efforts they represent. Third, by working closely with Deloitte’s auditors during the process, UPS managers have the opportunity to expand their own sustainability knowledge.

UPS chose Deloitte based on their subject matter competency and the quality of the long-term relationship between the two companies – ‘not on price’, Leffin emphasizes. UPS’ sustainability reporting process (and report, which currently appears separately from the company’s annual report) adheres to the Global Reporting Initiative (GRI) reporting framework. In all, more than 2 million lines of enterprise data are analyzed during the creation of the report. At a high level, the key steps in the UPS’ assurance process include the following:

- **Setting the scope:** UPS’ sustainability team and Deloitte’s auditors held roughly two months of discussions before the audit began to identify priority areas the assurance process should address. Deloitte’s team initiated the discussion by reviewing UPS’ previous sustainability report and identifying questions it would ask regarding how certain figures were produced.

- **Answering questions:** Once the major questions (ie, priority areas) and scope were finalized, Deloitte auditors ventured into various business and functional areas – human resources to address social issues, for example – to conduct their work. The environmental-related components of the sustainability auditing plan is largely based on the general ledger (GL), Leffin notes. Auditors look at the costs associated with energy and then interview UPS managers responsible for managing and tracking those costs and energy outputs. Review of the environmental data included “engineer to engineer” discussions in addition to analyzing the cost and energy usage information maintained in financial systems.

- **Addressing issues:** Deloitte produces a traditional dashboard populated with red, green and yellow ratings that identify which areas and issues require further inquiry and follow-up discussions with UPS. “If our auditors have issues or they want more information,” Leffin says, “they document those issues and then we have periodic reviews … We work together to get them the content they need to have the confidence they require to sign off at the end of the day. That’s the process.”

Judging from the results so far, this process works quite well. UPS intends to make this assurance effort an annual investment largely because of the credibility the assurance adds to the annual sustainability report.

‘Our investor relations group no longer lets us release the sustainability report during a quiet period. That’s good news because it confirms the material nature of our sustainability report’s content.’

Steve Leffin
Director of Global Sustainability
UPS
Section 4: Finance’s role

The survey results indicate that the finance function’s primary sustainability role currently consists of analyzing the business case for various sustainability-related investments. Fifty-six percent of all respondents indicate that they play a role in ‘business case/investment analysis’. However, this investment analysis role is more often a supporting role (as is the case among 35% of all respondents) than a leading role (21%).

Beside investment analysis, the most frequently identified finance function activities among all respondents are ‘tracking sustainability-related performance measures’ (33%), ‘reporting to satisfy the requirements of customers’ (28%), ‘integration of financial and sustainability information systems’ (25%), ‘internal controls over sustainability reporting information’ (24%), ‘environmental compliance reporting’ (22%) and ‘external sustainability reporting’ (18%), (see chart 12).

UK respondents appear ahead of the curve compared to US and Canadian respondents in the area of finance function involvement. For example, CIMA respondents are three times more likely than AICPA respondents and two times more likely than CICA respondents to play a lead role in efforts to fulfill the sustainability reporting requirements of new or existing customers. (See chart 13.)

One of the conclusions that emerges from discussions with leaders of advanced (by current standards) organizational sustainability programs is the value that the finance function adds to these efforts. This value points to the significant opportunities a leading role in sustainability may offer to finance and accounting managers.

Hemant Patel, retail finance director at ASDA, identifies several areas where finance and accounting capabilities have contributed value to ASDA’s sustainability program and processes:

- assistance with modeling the future impact of energy cost and incentive schemes
- post-appraisal, including helping to address projects that are not delivering to expectation
- assistance with controversial projects (ie, providing a non-biased view to better enable ASDA to make decisions that benefit the entire business).

‘Another area where our finance team is having a significant impact on our company’s sustainability efforts involves assessing the future cost of carbon – which are essentially unknown costs – and then modeling them into an appraisal.’

Hemant Patel
Retail Finance Director
ASDA

Chart 12: Finance function involvement

Finance function involvement - All - Combined

<table>
<thead>
<tr>
<th>Activity</th>
<th>Assisted</th>
<th>Led</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business case/investment analysis</td>
<td>35%</td>
<td>21%</td>
</tr>
<tr>
<td>Tracking sustainability-related performance measures (KPIs)</td>
<td>25%</td>
<td>8%</td>
</tr>
<tr>
<td>Reporting to satisfy business customer requirements</td>
<td>23%</td>
<td>5%</td>
</tr>
<tr>
<td>Integration of financial and sustainability information systems</td>
<td>18%</td>
<td>7%</td>
</tr>
<tr>
<td>Internal controls over sustainability reporting information</td>
<td>18%</td>
<td>6%</td>
</tr>
<tr>
<td>Environmental reporting</td>
<td>19%</td>
<td>3%</td>
</tr>
<tr>
<td>External sustainability reporting</td>
<td>15%</td>
<td>3%</td>
</tr>
</tbody>
</table>
Case study: ASDA

Finance’s ‘intrinsic’ sustainability role at ASDA

ASDA, Britain’s second largest supermarket, has successfully embedded sustainability in its strategy and has implemented numerous initiatives to save energy, reduce packaging and remove unnecessary waste from its stores. For example, the company’s recent effort to reduce its landfill waste through recycling generated a ‘seven-figure savings’, notes ASDA Retail Finance Director Hemant Patel. He points out that the company’s finance team plays an ‘intrinsic role’ in the sustainability decision making process including planning, testing and roll out of all sustainability programs.

These programs include: zero waste to landfill; reducing harmful emissions from stores, depots and transport; responsible store development (e.g. ASDA’s low-carbon flagship store in Bootle, Liverpool); minimizing packaging on own-label products; continually improving waste management practices at store level; encouraging customer and associate recycling through ‘bring back’ facilities and ‘green’ transport.

The following table identifies the finance team’s contribution in several recent projects:

<table>
<thead>
<tr>
<th>ASDA project</th>
<th>Finance team’s role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bio/bakery recycling projects</td>
<td>Cost benefit analysis</td>
</tr>
<tr>
<td>ASDA project management process</td>
<td>Stewardship, progress, responsibility and performance reporting</td>
</tr>
<tr>
<td>Evaluation of the potential impact of carbon reduction commitment regulations on ASDA</td>
<td>Financial evaluation, interpretation and presentation to senior executive team</td>
</tr>
<tr>
<td>New initiative store testing</td>
<td>Investment appraisal</td>
</tr>
</tbody>
</table>

Chart 13: Finance function leadership

<table>
<thead>
<tr>
<th>Finance function involvement: leading role</th>
<th>AICPA</th>
<th>CICA</th>
<th>CIMA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business case/investment analysis</td>
<td>17%</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td>Reporting to satisfy the requirements of new or existing business customers</td>
<td>4%</td>
<td>6%</td>
<td>12%</td>
</tr>
<tr>
<td>Internal controls over sustainability reporting information</td>
<td>5%</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>Integration of financial and sustainability information systems</td>
<td>6%</td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td>Tracking sustainability-related performance measures (KPIs)</td>
<td>4%</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>External sustainability reporting</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Environmental compliance reporting</td>
<td>2%</td>
<td>7%</td>
<td>4%</td>
</tr>
</tbody>
</table>
Conclusion

While there are some excellent examples of finance’s role in the most important components of sustainability, our survey shows that finance function involvement in the majority of sustainability programs could be improved.

It is clear that leaders of some of the most advanced sustainability programs value the skills and expertise that finance and accounting functions can bring to these efforts.

‘Any company that is feeling regulatory or marketplace pressure to demonstrate a responsible practice by placing a number on those practices needs the input of the finance and accounting community, which is particularly skilled at identifying, tracking and ensuring the validity metrics’, notes Catalyst Paper’s Brown.

‘The accounting thought process is very, very well suited for the whole sustainability discussion’, says UPS’ Leffin. ‘Why? Because sustainability demands structure and credibility. Since the beginning of time accountants have had third parties look at their work to confirm the work’s accuracy and credibility.’

Leffin says that the ‘accounting mindset’ is well suited for sustainability programs because of the finance and accounting’s long-standing commitment to establishing structure, demanding accuracy and delivering credibility to organizational initiatives.

The extent to which sustainability is integrated into the value creation process of the organization will depend on the skills and competencies of accountants to facilitate effective implementation, accurate measurement and credible reporting. To remain relevant the accounting profession must take ownership and embrace business sustainability. Accountants can apply the necessary financial and commercial rigor to develop clear and measurable sustainability goals, ‘decision-useful’ and reliable sustainability reports and become change agents for a sustainable future.

‘One of finance’s roles in sustainability is to figure out what information is material to the continued success of the organization. Once that determination is made, finance plays a role in ensuring that the sustainability-related information is treated the same way that other material information in the business is managed.’

Jessica Fries
Director
The Prince’s Accounting for Sustainability Project (A4S)
Survey methodology

In October 2010, a sample of AICPA, CIMA and CICA industry members were invited to participate in an online survey. In sum, 2,036 responded for an overall response rate of 6%.

It should be noted that those who chose to respond could be more interested in and/or work for companies that are more involved in sustainability resulting in a non-response bias in the findings.

The majority of respondents work in small to medium-sized enterprises (SMEs); however, there are some notable demographic differences among the different association members who responded to the survey. A majority of CIMA respondents work for publicly listed companies (49%) as opposed to privately held companies (45%). The majority of CICA respondents (63%) and AICPA respondents (66%) work for privately held companies. On a related note, more CIMA respondents (475) work for larger companies than companies with less than 1,000 employees (which, for the purposes of this survey, we define as SMEs). Conversely, a majority of AICPA respondents (651 out of 835) and CICA respondents (120 out of 178) work for SMEs. These demographic differences should be considered when reading the survey results that follow in the body of this report. Additional breakdowns of survey respondents include the following categories:

- Total number of survey participants: 2,036
- Large companies (more than 1,000 employees): 717
- SME companies (less than 1,000 employees): 1,319
- CFOs/finance directors: 49%
- Other “C” titles (e.g., CEO, CIO, etc): 8%
- Controller: 20%
- Finance Manager/Other: 22%

(Note: percentages do not add up to 100% due to unanswered questions)

<table>
<thead>
<tr>
<th></th>
<th>AICPA</th>
<th>CICA</th>
<th>CIMA</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample</td>
<td>22,943</td>
<td>2,000</td>
<td>9,451</td>
<td>34,394</td>
</tr>
<tr>
<td>Respondents</td>
<td>835</td>
<td>178</td>
<td>1,023</td>
<td>2,036</td>
</tr>
<tr>
<td>Response Rate</td>
<td>4%</td>
<td>9%</td>
<td>9%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Acknowledgements

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