SUSTAINALYTICS

Ceres

THE ROAD TO 2020:

CORPORATE PROGRESS ON THE CERES ROADMAP FOR SUSTAINABILITY

A JOINT REPORT BY CERES AND SUSTAINALYTICS

www.ceres.org/roadto2020

ACKNOWLEDGEMENTS

REPORT PARTNERS:

Ceres is an advocate for sustainability leadership. Ceres mobilizes a powerful network of investors, companies and public interest groups to accelerate and expand the adoption of sustainable business practices and solutions to build a healthy global economy.

Sustainalytics provides environmental, social and governance (ESG) research and analysis as well as responsible investment services to investors around the world. The firm offers global perspectives and solutions that are underpinned by local experience and expertise, serving both values-based and mainstream investors that integrate ESG information and assessments into their investment management.

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Full report: **www.ceres.org/roadto2020**

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ROAD TO 2020: FOREWORD

CalPERS is one of the world's largest institutional investors. The investment decisions we make will have an impact on the lives of millions of people tomorrow and for decades to come. In light of our long-term liabilities, we need to understand the critical risks and opportunities faced by the companies in our portfolio.

Today, that includes the serious risks—financial, physical, and reputational—associated with issues such as climate change, natural resource scarcity, supply chain pressures and other global sustainability challenges. Any company that ignores these risks, and fails to develop a long-term strategy to address them, is diminishing its competitiveness in the 21st century. At the same time, there are enormous opportunities for businesses that fully embrace sustainability.

The future will belong to innovative companies that understand that building long-term shareowner value and being an industry leader requires the integration of sustainability principles at every level, from the C-suite to operations, and through the supply chain.

THE FUTURE WILL BELONG TO INNOVATIVE COMPANIES THAT UNDERSTAND THAT BUILDING LONG-TERM SHAREOWNER VALUE AND BEING AN INDUSTRY LEADER REQUIRES THE INTEGRATION OF SUSTAINABILITY PRINCIPLES AT EVERY LEVEL, FROM THE C-SUITE TO OPERATIONS, AND THROUGH THE SUPPLY CHAIN.

But the responsibility for building a sustainable economy doesn't just fall on the shoulders of companies. Investors, too, have a critical role. We have to apply these same sustainability principles to our investment practices and integrate them throughout our decision-making. We need to press for robust public disclosure by companies so we can determine whether they are preparing to meet global challenges, such as energy and water constraints, and the economic and reputational risks associated with health and safety issues. CalPERS has developed its sustainability framework around the concept of three forms of capital: financial, human and physical. We know that long-term returns to our fund will rest upon the ability of companies to mobilize all three to create value.

In May 2011, CalPERS and 30 other large investors sent a letter to the CEOs of every company in the Russell 1000 stock index. We encouraged them to develop sustainable business strategies and to disclose their sustainability risks to investors through analyst calls, financial filings and annual meetings. We also recommended they consider *The 21st Century Corporation: The Ceres Roadmap for Sustainability* as a guide for integrating sustainability across their operations.

This report is the first assessment of company sustainability performance in relation to the Roadmap. For CalPERS, this report provides valuable information about companies that will help us in our analysis and future engagement. It examines progress in four areas key to building a sustainable 21st century corporation: governance, stakeholder engagement, disclosure and performance. There are many companies setting out their policies and practices on sustainability, which provide examples for others to follow.

We know from discussions with companies and their boards that a growing number of U.S. companies are evaluating environmental and social risks and looking for competitive advantages. We also know that when investors ask the tough questions about long-term strategy, companies have the backing to develop action plans. We understand that these plans are sector-specific. Whether it's reducing their carbon footprint, monitoring their impact on watersheds, or paying close attention to transparency demands from stakeholders, an increasing number of companies are demonstrating sustainability leadership. Hopefully, this report will encourage more companies to intensify, expand and accelerate their efforts, in the knowledge that their long-term investors see the significant role of sustainability in value creation.

Investors large and small are critical in the paradigm shift to a sustainable economy. U.S. companies are competing in a global economy where these risks and opportunities are shaping the future. Our role as the providers of capital is to ensure that companies have the support of shareowners in tackling these challenges and contributing to sustainable economic development. This will generate the financial returns that pay pensions for funds like ours, and also meet the expectations of wider society.

Anne Stausboll

Anne Stausboll
CEO CalPERS

LETTER FROM CERES & SUSTAINALYTICS

CLIMATE CHANGE AND A GROWING GLOBAL POPULATION PLACING EVER INCREASING DEMANDS ON ENERGY, WATER AND OTHER NATURAL RESOURCES MEANS THAT SUSTAINABILITY PRINCIPLES MUST BE AT THE CORE OF BUSINESS STRATEGY FOR EVERY COMPANY IN THE 21ST CENTURY. THESE CHALLENGES, AND THE ECONOMIC OPPORTUNITIES IN MEETING THEM, REQUIRE PROFOUND CHANGES IN HOW BUSINESS *DOES* BUSINESS. THOSE THAT ADAPT WILL BE POSITIONED FOR SUCCESS; THOSE THAT DON'T WILL BE LEFT BEHIND.

In 2010, Ceres released *The 21st Century Corporation: The Ceres Roadmap for Sustainability*, a virtual owner's manual for the sustainable corporation. For this report Ceres and Sustainalytics teamed up to evaluate the progress of 600 U.S. companies along the road to sustainability two years later.

The *Roadmap* defined what a sustainable corporation should look like: it outlined the necessary governance structures; the types of engagement companies should be pursuing with stakeholders; and the standards and scope of public disclosure and transparency that are essential to the sustainable corporation. Importantly, the *Roadmap* contained twenty specific expectations for sustainable performance, bold metrics for reducing environmental impacts and improving worker conditions in operations, supply chains and the rest of the corporate enterprise. For the first time companies had a tool to help them visualize and re-engineer themselves for success in a world challenged by unprecedented, large-scale environmental and social changes that threaten our economy and our planet. The Roadmap's expectations are high because the challenges we face are formidable, complex and immediate.

The *Roadmap* can be a powerful tool if companies put it into practice. For this first report measuring corporate progress on the *Roadmap*, we had several goals: first, we wanted a broad assessment of whether and how major companies are responding to sustainability challenges; second, we wanted to identify companies that are demonstrating sustainability business practices that could inspire others to follow suit; and, third, we wanted to accelerate the pace of change because with each passing year the challenge becomes increasingly urgent.

The results are clear: there are encouraging pockets of sustainability leadership in the U.S. business community, but far too many companies are only taking small, incremental steps. Sustainability has yet to gain traction at anywhere near the scale and speed required if the *Roadmap* expectations are to be widely met by 2020. Companies need to move beyond one-off projects and initiatives to comprehensive sustainable business strategies that are implemented from the boardroom to the copy room and throughout the supply chain.

Far from seeing this as a daunting hill to climb, we see it as a world of opportunity for companies to improve competitiveness, realize large savings through energy efficiency, invest in their workers, strengthen their supply chains and, in many sectors, reap the benefits of the enormous investment opportunities in clean technology and clean energy.

In the end, closing the sustainability gap will require a collaborative effort among investors, businesses, non-governmental organizations and other stakeholders concerned about the future of the planet and the economy. Ceres has a long history of these types of endeavors, including engaging with institutional investors and businesses on setting new expectations for sustainability leadership, supporting investors to ask companies about their sustainability risks and competitive opportunities, and the establishment of clear policies that reward sustainability performance. Sustainalytics has typically worked with institutional investors and has been focused on helping them drive change by integrating climate, water and other sustainability performance considerations into their investment decision-making processes.

Building a sustainable economy isn't a luxury, it's a necessity and time is short. We hope this report serves as a catalyst for action because inaction isn't an option for any company that hopes to thrive in the 21st century economy.

Mindy S. Lubber
President and CEO of Ceres

Michael Jantzi
CEO and Founder, Sustainalytics

EXECUTIVE SUMMARY:
CORPORATE PROGRESS ON THE CERES ROADMAP FOR SUSTAINABILITY

IT IS TIME TO RESET BUSINESS STRATEGIES FOR THE 21ST CENTURY WITH SUSTAINABILITY AT THE CENTER.

For businesses in all sectors of the economy, sustainability is a strategy for building long-term shareholder value, managing environmental and social risks, and improving competitiveness. Environmental and social sustainability issues are material "balance sheet" issues. They pose risks and offer opportunities that will drive the success of corporations.

There are ever increasing expectations of business from investors, customers, employees and communities to solve environmental and social challenges, and to be transparent in doing so. The need to jump from business strategies to "sustainable business strategies" is urgent if we are to tackle issues such as climate change, water scarcity and human rights, particularly as the global population eclipses seven billion and accelerates towards nine billion by 2050. This transformation will require boldness, innovation and perseverance; and the companies that make this switch will be best positioned to drive solutions to these 21st century challenges.

The Road to 2020: Corporate Progress on The Ceres Roadmap for Sustainability (www.ceres.org/roadto2020) assesses how U.S. businesses are progressing on sustainability and uses as a framework, *The 21st Century Corporation: The Ceres Roadmap for Sustainability*—a guide for integrating sustainability across a company's entire enterprise. Specifically, it evaluates where 600 large publicly traded companies[1] stand on sustainability issues in terms of governance, stakeholder engagement, disclosure and performance.

The analysis shows there are pockets of leadership and innovation, and identifies many specific examples where lessons can be learned and applied by other businesses. But it also reveals that two years into the 2020 timeframe we still have a long way to go. For example, just 26 percent of the 600 companies are integrating sustainability within governance and management systems; only a quarter are disclosing supply chain monitoring and performance; and only a third are setting targets for reducing greenhouse gas emissions. The findings are clear—more companies should be taking stronger action now.

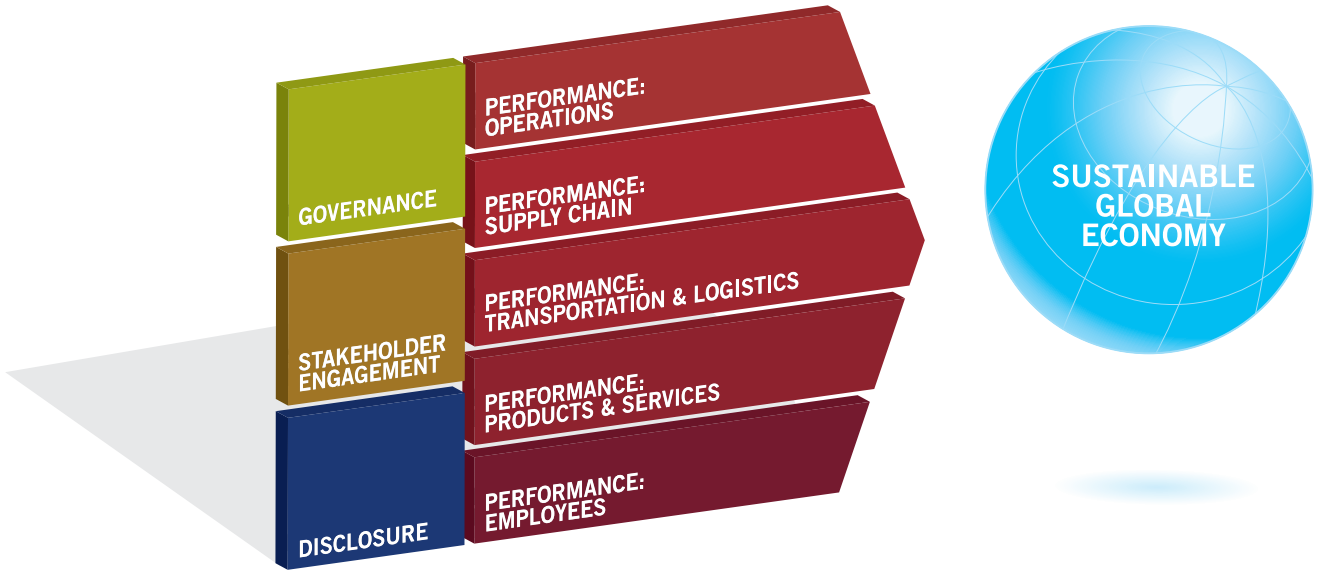
VIEW THE FULL REPORT ONLINE

Visit www.ceres.org/roadto2020 to view the full report and key findings. The website offers interactive charts, which are useful tools for understanding the results, comparing performance of peers within sectors and identifying key opportunities for taking action. The website also features details on the methodology, additional analyses for each of the nine priority sectors and additional resources and reports.

Check it out at www.ceres.org/roadto2020.

1 The vast majority of companies included within this report are based in the U.S.; only ten companies are headquartered elsewhere.

THE CERES ROADMAP FOR SUSTAINABILITY



In 2010, Ceres released *The 21st Century Corporation: The Ceres Roadmap for Sustainability* ("Roadmap"), a veritable owner's manual for the sustainable corporation. As noted then, "Enormous opportunities arise during transformative times." And these are truly transformative times. This has been proven again and again as the financial markets struggle to regain credibility, Occupy Wall Street and the Arab Spring movements challenge the status quo and extreme weather events upend businesses and communities. In 2011, U.S. insurers saw a doubling in losses from extreme weather events, such as more pronounced heat waves and drought. To mitigate the deeper impacts of climate change to come, the entire energy economy must be transformed. Companies can save billions of dollars right now through energy conservation and efficiency. Clean, renewable energy, an imperative for reducing our fossil fuel dependency, is a multi-trillion dollar business opportunity. Business is already being affected by sustainability challenges and so it must also be the driving force behind the solutions.

The *Roadmap* contains 20 specific expectations for corporate performance broadly divided into four areas of activity—governance, stakeholder engagement, disclosure and performance.

GOVERNANCE: Companies will embed sustainability into core building blocks—management and board structures, goal-setting and strategic decision-making.

STAKEHOLDER ENGAGEMENT: Companies will proactively engage in robust dialogue with stakeholders across the whole value chain, and will integrate stakeholder feedback into strategic planning and operational decision-making.

DISCLOSURE: Companies will regularly report on sustainability strategies and performance. Disclosure will include credible, standardized, independently verified metrics encompassing all material stakeholder concerns, and detailed goals and plans for future action.

PERFORMANCE: Companies will routinely and systematically improve environmental and social metrics across their operations, supply chains and products, including reduced water and energy use, lower footprints for carbon emissions and waste and respect for human rights.

This is the framework *The Road to 2020* used to evaluate the progress of 600 U.S. companies on sustainability, two years after the release of the *Roadmap*.

SUMMARY OF KEY FINDINGS

The findings of this report represent a collaborative effort by Ceres and Sustainalytics to assess the progress of companies and to identify noteworthy trends and business practices. Our conclusion? Companies are moving, albeit too slowly, given the urgency of the sustainability challenges we face.

With respect to each key expectation of the Roadmap evaluated, companies were placed in a performance tier.

Some companies have made great strides; others are standing still; and most are somewhere in between. This means that for most companies the opportunities to transform themselves are vast. Some of the most significant findings include:

- **Tier 1:** Setting the Pace
- **Tier 2:** Making Progress
- **Tier 3:** Getting on Track
- **Tier 4:** Starting Out

GOVERNANCE FOR SUSTAINABILITY

26 percent of the 600 companies (157 companies) including Alcoa, Xcel and Intel are in Tiers 1 and 2 for their governance strategies on sustainability. More than half are in Tier 4.

STAKEHOLDER ENGAGEMENT

Almost **24 percent** of companies have some degree of meaningful stakeholder engagement, including Baxter and Ford who demonstrate ongoing and long-term engagement with a diversity of stakeholders and disclose how they consider stakeholder feedback in business decision-making and strategy. However, nearly half of the companies assessed disclose no efforts on stakeholder engagement.

DISCLOSURE

Of the 600 companies, **49 percent** (293 companies) are publishing sustainability reports, with **29 percent** (176 companies) using the Global Reporting Initiative guidelines. This still leaves almost half of the companies without a sustainability report.

PERFORMANCE

REDUCING GHG EMISSIONS

Nearly half of the companies (**47 percent**) are making some progress in reducing greenhouse gas emissions by reducing electricity demand, procuring renewable energy and ramping up energy efficiency. A third of the 600 companies have in place time-bound targets for reducing GHG emissions for direct operations.

WATER MANAGEMENT

Among four particularly water-intensive sectors analyzed—Food & Beverage, Footwear & Apparel, Oil & Gas and Utilities—**25 percent** of companies, including The Coca-Cola Company and Exelon, have undertaken assessments to identify specific water-related risks, such as geographic-specific exposure.

HUMAN RIGHTS

Only **13 percent** (80 companies) of the 600 companies evaluated on human rights policies and programs are ranked in Tiers 1 & 2. Top performing companies for this expectation include 3M, General Electric and Hess, for which policies covering freedom of association, elimination of discrimination, human rights, and working conditions were evaluated.

SUPPLY CHAIN

Nearly half—**43 percent** or 259 companies—of the 600 companies have a supplier code in place and nearly **10 percent** (55 companies) make explicit reference to relevant International Labor Organization (ILO) conventions. Overall, only **25 percent** of the 600 companies disclose some amount of supply chain monitoring and performance information including Nike and Hewlett Packard.

Visit the web report to see all of the Key Findings and interact with the online charts and graphs.

Check it out at www.ceres.org/roadto2020.

METHODOLOGY

This report evaluates if and how 600 large U.S. companies are meeting many of the expectations outlined in the *Roadmap*. The *Roadmap* was designed to be a leadership framework that is grounded in practical examples of where and how companies are meeting the expectations of a 21st century sustainable corporation. As the journey toward business sustainability progresses, we will look for new and innovative practices from companies and will adapt *The Road to 2020* assessment methodology to reflect these developments.

The data used for this assessment report was compiled and evaluated by analysts at Sustainalytics, an independent environmental, social and governance (ESG) research provider with substantial experience and expertise in evaluating best practices in the ESG performance of publicly-traded companies. Each of the companies included in this report is profiled in Sustainalytics' Global Platform, where a broad range of indicators are used to assess ESG policies, management systems and performance outcomes. The Platform was adapted to align with the expectations detailed in the *Roadmap* using the Sustainalytics' standard research process and methodological approach.

METHODOLOGICAL APPROACH

Universe of Coverage

The research universe for this report includes 600 companies listed on at least two out of three of the following indices: S&P 500, Russell 1000 and MSCI Developed Markets. The vast majority of the companies are U.S.-based; however, ten companies have headquarters that are located elsewhere, yet are traded on the S&P 500 and either the Russell 1000 or the MSCI DM. All companies included are publicly traded corporations; limited partnership and liability companies have been excluded from the research universe.

Sectors

The 600 companies have been organized into 19 distinct sectors based on their unique business models and operations. The sector headings are aligned with the Global Industry Classification System (GICS). The report examined nine of these sectors in greater detail: Autos & Transportation, Financial Services, Food & Beverage, Footwear & Apparel, Oil & Gas Producers, Retail, Technology Hardware, Technology Software & Services and Utilities. To supplement the main report, overviews of each of these priority sectors are available online, allowing users to delve deeper into sector-specific performance on the *Roadmap* expectations. Depending upon resources and data availability, additional sectors may be added to this list in the future.

Indicators & Weights

This report is based on the findings of 57 core and sector-specific indicators. Forty-nine of these indicators were selected from a larger pool of indicators tracked in Sustainalytics' Global Platform. These indicators were used as proxies to measure the *Roadmap* expectations, and eight new indicators were developed to allow for a more comprehensive indicator mapping. For this first report it was not possible to capture all of the data required to fully assess the *Roadmap* expectations. However, we will be looking at additional indicators in the future to capture the meaning of the expectations more completely and to ensure that the continuous improvement and understanding of sustainability issues are reflected in the assessment process. Please see the chart on page 9, which maps each of the *Roadmap* expectations to the indicators used to measure progress and also notes those *Roadmap* expectations not covered in this assessment.

Of the 57 indicators tracked, 27 are core indicators assigned to all sectors, while 31 are sector-specific indicators assigned on the basis of sector impact and exposure. Given the consistent set of expectations assigned to all sectors in the areas of governance, stakeholder engagement and disclosure, weightings were uniformly assigned to the accountability expectations. Customized weightings were applied at the performance expectation level for each sector. For example, supply chain operations are weighted more heavily for sectors with considerable exposure by virtue of their lengthy supply chains, such as Technology: Hardware and Footwear & Apparel.

Controversy Assessment Process

Sustainalytics has a rigorous monthly controversy assessment process that distinguishes the level of incident severity based on variables such as recurrence, degree of impact and company response. This screening was applied to the 600 companies included in this study as an extra layer of analysis, but was not accounted for in the performance assessment weighting. It is not uncommon for a company to have a strong environmental management framework or human rights policy in place, yet still be embroiled in environmental or human rights controversies due to poor implementation. This screen was used to avoid acknowledging companies for having strong performance on a given expectation, if the business was also implicated in significant, related controversies. It is recognized, however, that with businesses and sustainability issues moving quickly, this process may not have captured every negative incident involving a company's impact. It is also important to note that singling out a company's performance on a given expectation does not imply it is an overall sustainability leader. Rather examples from Tier 1 and 2 companies are used to illustrate specific practices others can emulate or adapt for implementation within their own businesses.

Tiering System

This report is not a benchmark and does not disclose individual scores. Instead, it is a tool for companies to assess their performance against sector peers and learn from sustainability initiatives other sectors are adopting. It is not an absolute measure of performance but a relative one. Simply because a company is performing better than its peers with regard to a specific *Roadmap* expectation does not mean it has fully met that expectation. The report focuses on solutions and improvements companies can make to meet the *Ceres Roadmap* expectations by 2020. A tiered approach has been applied to assess and present company performance.

Tier 1: Setting the Pace

Tier 2: Making Progress

Tier 3: Getting on Track

Tier 4: Starting Out

Data Availability

Interactive charts and graphs are available in an online format (www.ceres.org/roadto2020) so users can view performance results according to *Roadmap* chapters and expectations. At both the chapter and expectation levels graphs illustrate how the 600 companies evaluated are positioned across the four tiers.

ACCOUNTABILITY CHAPTERS

For the first three chapters focused on accountability measures for sustainability—Governance, Stakeholder Engagement and Disclosure—information is available for each of the 600 companies. For the graphs displaying overall progress for these chapters, users will be able to filter results for each of the 19 sectors assessed and view a list of companies included within each of the four tiers. At the expectation level for the first three chapters, users will be able to view the full list of 600 companies and how they are positioned across the four tiers.

PERFORMANCE CHAPTER

Within the Performance chapter, tier assessments for overall progress are not disclosed. Data limitations for certain sectors and expectations, along with sector-specific environmental and social impacts, would render sector comparisons meaningless. Therefore, only performance information at the expectation level is disclosed.

For certain Performance chapter expectations, all 600 companies were assessed. For others, a smaller number of companies were assessed for reasons cited above. For the Performance expectations, the filtering option is limited to the nine priority sectors (or a sub-set depending upon the expectation) and users will only be able to view a list of companies within those sectors to see how they are positioned across the four tiers.

On pages 9-11 is a mapping of proxy indicators used to measure progress against each *Roadmap* expectation and a list of sectors covered per expectation.

RESEARCH METHODOLOGY

Data Sources

The analysis for this report is supported by a comprehensive set of data gathered through a variety of primary and secondary sources and specialized third-party data providers. With the exception of direct company feedback, the sources consulted are publicly available, though often through subscription. Company reporting constitutes the starting point for research, with key sources including sustainability reports, financial reporting and websites. A company spokesperson is contacted upon completion of each full profile update and sent a draft copy of their report for verification. Any relevant feedback communicated by companies tracked in this report has been processed and incorporated.

Sustainalytics' analysts use a centralized media database to conduct a monthly search for all companies (including their subsidiaries); an extensive list of NGO sources is also centrally tracked on a monthly basis. Other core sources include the Carbon Disclosure Project, UN Global Compact, Organization for Economic Co-operation and Development (OECD) Watch, and Business & Human Rights. Regional sources are consulted for labor relations, environmental, and health and safety data (e.g. OSHA, EPA, and NLRB in the U.S.). Further, each analyst also tracks industry-specific sources tailored to the key ESG issues in their sectors.

Data Collection Frequency and Process

The data assessed in this report represents a snapshot of company ESG performance based on data housed in Sustainalytics' Global Platform as of January 2012. As such, company reporting corresponds to FY2010 or 2011, depending on fiscal year-end and reporting schedules. Sustainalytics has updated information derived from media and NGO sources on a monthly basis, while other centralized data points are updated on a quarterly to semi-annual basis.

Quality Control Process

Sustainalytics applies a rigorous quality assurance process, which includes an internal peer review of all profiles prior to company verification and tabulation of scores. The peer review process ensures overall consistency in accordance with Sustainalytics' analyst guidelines and quality standards. A quality assurance team at Sustainalytics that oversees broader quality control initiatives was explicitly tasked with supporting this report by fact checking a number of scores across a broad sample of companies and indicators.

WHAT WE MEASURED: INDICATOR MAPPING

Roadmap Chapter	Ceres Roadmap Expectation	Sustainalytics Indicator Name	Summary of Indicator Coverage	Summary of Priority Sector Coverage								
				Autos & Transportation	Financial Services	Food & Beverage	Footwear & Apparel	Oil & Gas Producers	Retail	Tech: Hardware	Tech: Software	Utilities
GOVERNANCE	Board Oversight	Board oversight of ESG Issues	All sectors	X	X	X	X	X	X	X	X	X
	Management Accountability	Executive management oversight of ESG Issues	All sectors	X	X	X	X	X	X	X	X	X
	Executive Compensation	Executive Compensation Tied to ESG Performance	All sectors	X	X	X	X	X	X	X	X	X
	Corporate Policies & Management Systems	Policy on Bribery and Corruption	All sectors	X	X	X	X	X	X	X	X	X
		Whistle Blower Programs	All sectors	X	X	X	X	X	X	X	X	X
		Signatory to UN Global Compact	All sectors	X	X	X	X	X	X	X	X	X
		Signatory to the UN Principles for Responsible Investment	Financial Services; Banks & Insurers; Real Estate		X							
		Formal Policy Statement on Responsible Investment	Financial Services; Banks & Insurers; Real Estate		X							
		Member of UNEP Fincial Services Initiative	Financial Services; Banks & Insurers		X							
		Equator Principles and Related Reporting	Financial Services; Banks & Insurers		X							
		Formal Environmental Policy	All sectors	X	X	X	X	X	X	X	X	X
		Environmental Management System	All sectors	X	X	X	X	X	X	X	X	X
		Formal Policy on Freedom of Association	All sectors	X	X	X	X	X	X	X	X	X
		Formal Policy on Elimination of Discrimination	All sectors	X	X	X	X	X	X	X	X	X
		Formal Policy on Working Conditions	Autos & Transportation; Footwear & Apparel; Retail; Technology Hardware; Consumer Discretionary; Industrials; Materials; Professional Services; Semiconductors	X			X		X	X		
		Formal Policy on Human Rights	Oil & Gas Producers; Energy Services & Refining; Industrials; Materials; Professional Services; Telecom Services					X				X
		External Certification of EMS	All sectors	X	X	X	X	X	X	X	X	X
	Public Policy	NOT COVERED	—-	-	-	-	-	-	-	-	-	-
STAKEHOLDER ENGAGEMENT	Focus Engagement Activity	Disclosure on Stakeholder Engagement	All sectors	X	X	X	X	X	X	X	X	X
	Substantive Stakeholder Dialogue	Quality of Stakeholder Dialogue	All sectors	X	X	X	X	X	X	X	X	X
	Investor Engagement	Investor Communication	All sectors	X	X	X	X	X	X	X	X	X
	C-Level Engagement	NOT COVERED	——	-	-	-	-	-	-	-	-	-
DISCLOSURE	Standards for Disclosure	Sustainability Reporting and GRI Guidelines	All sectors	X	X	X	X	X	X	X	X	X
	Disclosure in Financial Filings	Disclosure of material sustainability risks and opportunities in financial filings.	All sectors	X	X	X	X	X	X	X	X	X
	Vehicles for Disclosure	Participation in CDP	All sectors	X	X	X	X	X	X	X	X	X
		Sustainability Reporting and GRI Guidelines	All sectors	X	X	X	X	X	X	X	X	X
		Investor Communication	All sectors	X	X	X	X	X	X	X	X	X
	Verification & Assurance	External Verification of CSR Reporting	All sectors	X	X	X	X	X	X	X	X	X
	Scope & Content	NOT COVERED	——	-	-	-	-	-	-	-	-	-
	Product Transparency	NOT COVERED	——	-	-	-	-	-	-	-	-	-

				Summary of Priority Sector Coverage								
Roadmap Chapter	Ceres Roadmap Expectation	Sustainalytics Indicator Name	Summary of Indicator Coverage	Autos & Transportation	Financial Services	Food & Beverage	Footwear & Apparel	Oil & Gas Producers	Retail	Tech: Hardware	Tech: Software	Utilities
OPERATIONS	GHG Emissions & Energy Efficiency	Scope of Corporate Reporting on GHG Emissions	All sectors	X	X	X	X	X	X	X	X	X
		Programs and Targets to Reduce Direct GHG Emissions	All sectors	X	X	X	X	X	X	X	X	X
		Programs and Targets to Increase Renewable Energy Use	All sectors	X	X	X	X	X	X	X	X	X
		Carbon Intensity	All sectors	X	X	X	X	X	X	X	X	X
		Carbon Intensity Trend	All sectors	X	X	X	X	X	X	X	X	X
		% Primary Energy Use from Renewables	All sectors	X	X	X	X	X	X	X	X	X
		Scope 3 Emissions	All sectors	X	X	X	X		X	X		
		Carbon Intensity of Energy Mix	Utilities									X
	Facilities & Buildings	Programs & Targets to Increase Investments in Sustainable Buildings	Financial Services; Food & Beverage; Footwear & Apparel; Retail; Technology Hardware		X	X	X		X	X		
	Water Management	Water Risk Assessment	Food & Beverage; Footwear & Apparel; Oil & Gas Producers; Utilities			X	X	X				X
		Water Disclosure	Food & Beverage; Footwear & Apparel; Oil & Gas Producers; Utilities			X	X	X				X
		Programs & Targets to Reduce Water Use	Food & Beverage; Footwear & Apparel; Utilities			X	X	X				X
	Human Rights	Formal Policy on Freedom of Association	All sectors	X	X	X	X	X	X	X	X	X
		Formal Policy on Human Rights	Utilities; Energy Services & Refining; Industrials; Materials; Professional Services; Telecom Services									X
		Formal Policy on Elimination of Discrimination	All sectors	X	X	X	X	X	X	X	X	X
		Local Community Development Programs	Oil & Gas Producers; Materials					X				
		Community Involvement Programs	Oil & Gas Producers; Retail; Utilities; Industrials; Materials; Telecom Services; Real Estate					X	X			X
		Policy on Indigenous People and Land Rights	Oil & Gas Producers; Materials					X				
		Formal Policy on Working Conditions	Footwear & Apparel; Retail; Technology Hardware; Consumer Discretionary; Industrials; Materials; Professional Services; Semiconductors				X		X	X		
	Eliminate Waste	NOT COVERED	——	-	-	-	-	-	-	-	-	-
SUPPLY CHAIN	Policies & Codes	Scope of Supply Chain Standards	All sectors	X	X	X	X	X	X	X	X	X
		Quality of Social Supply Chain Standards	Autos & Transportation; Food & Beverage; Footwear & Apparel; Retail; Technology Hardware; Consumer Discretionary; Industrials; Semiconductors; Telecom Services	X		X	X		X	X		
	Align Sourcing Practices	Formal Policy or Program on Green Procurement	All sectors	X	X	X	X	X	X	X	X	X
	Engaging Suppliers	Supply Chain Monitoring System	All sectors	X	X	X	X	X	X	X	X	X
		Programs and Targets for Environmental Improvement of Suppliers	Autos & Transportation; Footwear & Apparel; Technology Hardware; Utilities; Consumer Discretionary; Industrials; Semiconductors; Telecom Services	X			X			X		X
		External Social Certification of Suppliers	Footwear & Apparel; Retail; Technology Hardware; Consumer Discretionary; Semiconductors; Telecom Services				X		X	X		
	Measurement & Disclosure	Supply Chain Monitoring System	All sectors	X	X	X	X	X	X	X	X	X
		Supply Chain Audits and Related Reporting	Food & Beverage; Footwear & Apparel; Technology Hardware; Consumer Discretionary; Industrials; Semiconductors; Telecom Services			X	X			X		
		Reporting on Supply Chain Monitoring and Enforcement	Footwear & Apparel; Technology Hardware; Consumer Discretionary; Industrials; Semiconductors; Telecom Services				X			X		

				Summary of Priority Sector Coverage								
Roadmap Chapter	Ceres Roadmap Expectation	Sustainalytics Indicator Name	Summary of Indicator Coverage	Autos & Transportation	Financial Services	Food & Beverage	Footwear & Apparel	Oil & Gas Producers	Retail	Tech: Hardware	Tech: Software	Utilities
TRANSPORTATION & LOGISTICS	**Transportation Management & Modes**	Targets and Programs to Improve the Environmental Performance of Logistics and Fleet Management	Autos & Transportation; Food & Beverage; Footwear & Apparel; Retail; Technology Hardware	X		X	X		X	X		
		Programs & Targets to Reduce GHG Emissions from Outsourced Logistics Services	Food & Beverage; Footwear & Apparel; Retail; Technology Hardware			X	X		X	X		
	Business Travel & Commuting	NOT COVERED	———	-	-	-	-	-	-	-	-	-
PRODUCTS & SERVICES	**Design for Sustainability**	Programs & Targets to Promote Sustainable Food Products	Food & Beverage; Retail			X			X			
		Sustainability Related Products & Services	Autos & Transportation; Footwear & Apparel; Retail; Technology Software; Utilities	X			X		X		X	X
		Programs & Targets to Increase Investments in Sustainable Buildings	Real Estate									
		Sustainability Related Financial Services	Financial Services; Banks & Insurers		X							
		Revenue from Clean Technology or Climate Friendly Products	Oil & Gas Producers; Industrials					X				
		Systematic Integration of Environmental Considerations at R&D Stage	Footwear & Apprel; Technology Hardware; Consumer Discretionary; Industrials; Materials; Semiconductors; Telecom Services				X			X		
		Organic Products	Food & Beverage; Retail; Consumer Discretionary			X			X			
		Fair Trade Products	Food & Beverage; Retail; Consumer Discretionary			X	X					
	Business Model Innovation	NOT COVERED	———	-	-	-	-	-	-	-	-	-
	R&D & Capital Investment	NOT COVERED	———	-	-	-	-	-	-	-	-	-
	Marketing Practices	NOT COVERED	———	-	-	-	-	-	-	-	-	-
	Strategic Collaboration	NOT COVERED	———	-	-	-	-	-	-	-	-	-
EMPLOYEES	**Training & Support**	Employee Enagement	All sectors	X	X	X	X	X	X	X	X	X
	Recruitment & Retention	NOT COVERED	———	-	-	-	-	-	-	-	-	-
	Promoting Sustainable Lifestyles	NOT COVERED	———	-	-	-	-	-	-	-	-	-

KEY FINDINGS & ANALYSIS

This analysis of 600 U.S. companies[2] shows that a relatively small cluster of businesses are leading on sustainability practices and performance, but broad corporate action remains tenuous. This report's primary goal is to identify and highlight examples of how companies are working to meet the expectations set forth in *The 21st Century Corporation: The Ceres Roadmap for Sustainability*—and the business case for doing so—in the hopes that many more companies will follow.

The *Roadmap* was used as the framework for evaluating the 600 companies within this report. Released in 2010, the *Roadmap* is a comprehensive platform for designing a sustainable business strategy that will position companies for success in the low-carbon, resource constrained 21st century global economy.

The *Roadmap's* bar for leadership is a high one, reflecting that sustainability challenges are complex and require business innovation paired with robust accountability systems. Our analysis illustrates that sustainability leadership is the exception and, unfortunately, below average performance with limited pockets of action are still the norm. The emphasis of this report, however, is not on individual scores, but on tiers of performance and practical paths for improvement. We have highlighted examples of companies that have strong performance on a given *Roadmap* expectation so that others can learn from them, but this does not necessarily mean that the company is an overall sustainability leader. In fact, every company in this report has areas where it can improve performance against the *Roadmap's* expectations.

To evaluate corporate progress on the *Roadmap*, Ceres partnered with research provider Sustainalytics to identify indicators to be used to measure each of the *Roadmap* expectations assessed in this report. Details of the indicators mapped to each of the expectations can be found in the methodology. In order to illustrate progress against the expectations, company performance results are categorized across four Tiers defined as follows:

Tier 1: Setting the Pace

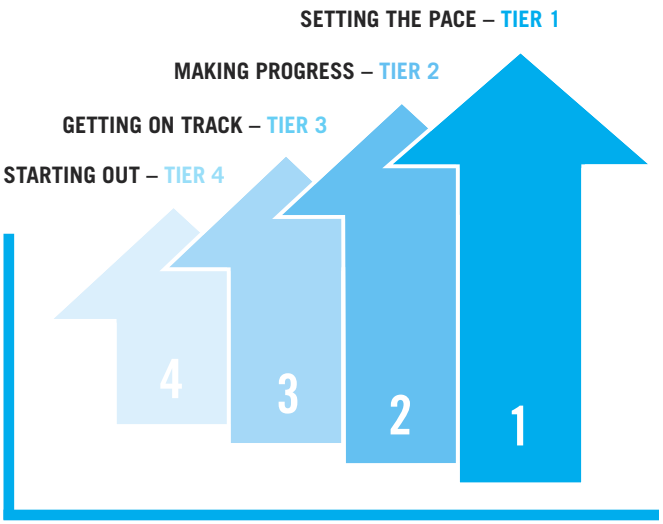
Tier 2: Making Progress

Tier 3: Getting on Track

Tier 4: Starting Out

The report findings are presented under the same chapter and expectation-level headings outlined in the *Roadmap*. The first three chapters focus on those sustainability strategies that drive accountability throughout the corporation—**Governance, Stakeholder Engagement** and **Disclosure**. Companies should be striving to meet these expectations regardless of their sector, operations or locations. Therefore, the analysis and weighting of results for the three accountability chapters and expectations are equally applied to all 600 companies included in the report.

The report's **Performance** chapter focuses on goals and results in improving environmental and social performance in **operations, supply chains, transportation and logistics, products and services,** and **employee engagement**. The *Roadmap* performance expectations call for improving water management and risk assessment, reducing the carbon footprint and building sustainability throughout the supply chain, amongst other expectations (see the methodology for a full list of the Roadmap performance expectations evaluated in this report).



The environmental and social performance impacts of companies may vary by sector. Therefore, the indicators used to measure the *Roadmap* expectations in the Performance chapter are sector-specific. Consequently, the analysis and key findings in the Performance chapter are more specifically focused on a sub-set of 251 companies across **nine priority sectors**, including: Autos & Transportation, Financial Services, Food & Beverage, Footwear & Apparel, Retail, Technology Hardware, Technology Software & Services, Oil & Gas Producers and Electric Utilities.

This report is designed to be an online experience. We invite you to visit the website to interact with the online charts, which are useful tools for understanding the results, comparing performance of peers within sectors and identifying key opportunities for taking action. The web platform also features details on the methodology, additional analyses for each of the nine priority sectors and additional resources and reports.

Check it out at www.ceres.org/roadto2020.

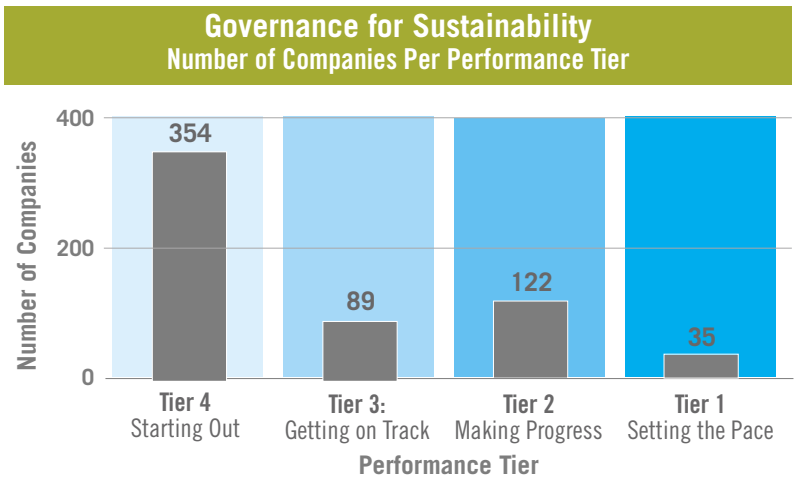
2 Each of the 600 companies evaluated in this report is listed on at least two of three of the following indices: S&P 500, Russell 1000 and MSCI Developed Markets.

GOVERNANCE FOR SUSTAINABILITY

VISION: COMPANIES WILL EMBED SUSTAINABILITY FROM THE BOARDROOM TO THE COPY ROOM AND WILL MANAGE THEIR ENTIRE VALUE CHAIN FROM A SUSTAINABILITY PERSPECTIVE.

Key Finding

Just over 26 percent of the 600 companies—157 companies—are included in Tiers 1 and 2 for their governance of sustainability. More than half of the companies (358) fell in the 4th Tier.



Companies that embrace good governance practice have always been better positioned to mitigate risks and capitalize on emerging opportunities. The same holds true when considering governance for sustainability. The systematic integration of sustainability throughout the business must begin with a comprehensive assessment of the chain of accountability.

In this chapter, using data gathered by Sustainalytics, the 600 companies were evaluated based on key governance activities such as: board of director oversight for sustainability; management accountability; executive compensation links to ESG performance; and strength of sustainability policies and management systems. Additional analysis for the 251 companies within the nine priority sectors can be found in the web report at www.ceres.org/roadto2020.

Overall, the results show there is room for improvement by companies across all sectors. Only 26 percent of the companies evaluated—157 companies—were included in Tiers 1 and 2 for their efforts to integrate sustainability into governance. The Utilities and Materials sectors had the strongest performance results overall, followed by Industrials and Oil & Gas Producers. This is not particularly surprising given that these sectors face significant social and environmental exposure, requiring considerable investment in risk management processes. Nevertheless, with more than 50 percent of the 600 companies evaluated falling in Tier 4, far more work is needed to integrate sustainability into overall corporate accountability systems.

CERES ROADMAP EXPECTATION:

BOARD OVERSIGHT OF SUSTAINABILITY

The Board of Directors will provide oversight and accountability for corporate sustainability strategy and performance. A committee of the board will assume specific responsibility for sustainability oversight within its charter.

Key Finding

Of the 600 companies assessed in this report, 28 percent (170 companies) have instituted board oversight of sustainability issues, 39 percent (235 companies) have instituted executive management oversight and 23 percent (135 companies) have both.

The board of directors is responsible for providing insight and oversight on both risks and opportunities for the business, and sustainability issues should be considered part of this responsibility. For this expectation, the assignment of a corporate board member or a board committee with explicit responsibility for sustainability was examined. Of the 600 companies assessed in this report, 28 percent have instituted board oversight of sustainability issues, 39 percent have instituted management oversight and 23 percent have both.

Leading companies are recruiting a diverse roster of board members, drawing upon their unique perspectives shaped by personal attributes (such as gender, race, geography) and professional experience, notably including sustainability expertise. A diversity of backgrounds and experiences ensures that a wide-range of viewpoints can be offered regarding business risks and opportunities which, for a company operating in the 21st century, includes environmental and social issues. For example, *Prudential Financial* recently added sustainability and corporate responsibility skills as one of its criteria for board member selection. Doing so not only illustrates the company's commitment to sustainability at the highest levels, but also enables the board to provide meaningful oversight for emerging environmental and social issues that confront the business.

To formalize board oversight on sustainability issues, a designated board committee should be tasked with related oversight. Companies, including *Consolidated Edison, Merck* and *Weyerhaeuser*, incorporate specific language in board committee charters detailing the board's role in providing input and guidance across the company's environmental and social sustainability strategies, goals, policies and practices.

Board oversight can take several forms. Some companies establish stand-alone committees, such as *McDonalds'* Corporate Responsibility Committee, while others assign functional responsibility to an existing committee, such as *EMC's* Corporate Governance and Nominating Committee. The type of committee is less important than the scope and ambition of its mandate, which should include company-wide oversight on issues such as climate change, human rights, sustainable supply chain management, health and safety, as well as sustainable products and services. Leading companies, for example *Nike*, provide board members with regular training and education on key sustainability issues. This education promotes a more strategic, long-term approach to the board's overall assessment of the company's business performance.

CASE STUDY

GROWING TRENDS IN BOARD OVERSIGHT

According to a report released by Calvert and The Corporate Library (now GMI Ratings)[3] in 2010, 65 percent of S&P 100 companies had assigned board-level oversight for sustainability through board committee charters. However, the extent of oversight and scope of these committees varies greatly. The report identifies seven key factors relating to sustainability that boards should be addressing, including: oversight for policies and compliance; trend assessment; strategy and performance; risk management; stakeholder engagement; sustainability reporting; incident management; and environmental and social impact assessment of business decisions. While most review and monitor corporate policies, less than half provide oversight in any of the other categories that are equally as vital to identifying business value and addressing risks.

There is still much to be done to establish robust governance of material sustainability issues at the board level. Board oversight must extend beyond a compliance-focus to address the critical environmental and social impacts that are or will be facing a company.

3 Dalheim, Stu, Mike Lombardo, Aditi Mohapatra, Annalisa Barrett and Kimberly Gladman. *Board Oversight of Environmental and Social Issues: An Analysis of Current North American Practice.* Calvert Investments and The Corporate Library. 2010. Retrieved from: http://info.thecorporatelibrary.com/download-free-report-on-board-oversight-of-social-and-environmental-issues/?utm_campaign=UNPRI-Calvert-Website&utm_source=Calvert Website.

CERES ROADMAP EXPECTATION:

MANAGEMENT ACCOUNTABILITY

The CEO and company management—from C-Suite executives to business unit and functional heads—will be responsible for achieving sustainability goals.

Key Finding

The 167 companies (28 percent) included in Tier 1 have formal executive management committees tasked with ESG oversight responsibilities and the 68 companies (11 percent) in Tier 2 have informal accountability systems in place.

Management oversight of ESG issues signals a clear commitment to company-wide integration of sustainability. To determine whether companies were meeting this expectation, we assessed whether the company had management accountability systems in place to oversee sustainability performance. The assessment found management oversight to be more common than board oversight, with the 167 companies (28 percent) included in Tier 1 having formal management committees tasked with ESG oversight responsibilities and the 68 companies (11 percent) in Tier 2 having informal accountability systems in place.

Sprint, for example, has integrated sustainability into the current roles of senior executives by assigning an executive steering committee, chaired by CEO Dan Hesse, with responsibility for ensuring the implementation of sustainability strategies. Other companies, including *CA Technologies* and *Alcoa*, have assigned formal responsibility to a Chief Sustainability Officer who reports directly to the CEO and a board-level corporate responsibility committee. There are variations in the structure of the internal accountability systems, but leading companies are able to clearly demonstrate that sustainability is a part of all business decisions from strategy to operations to human resources.

☑ ***Integrating responsibility throughout a company, rather than limiting it to a single department, legitimizes sustainability for all employees and encourages interdepartmental cooperation in meeting ESG targets.***

Integrating responsibility throughout a company, rather than limiting it to a single department, legitimizes sustainability for all employees and encourages interdepartmental cooperation in meeting ESG targets. *Dell's* Sustainability Council includes executive-level representation from across the enterprise, including the CEO, Investor Relations, Communications, Human Resources, Procurement, Finance, and Engineering leaders. This group meets semi-annually to discuss relevant sustainability risks and opportunities facing the business. Successful sustainability committees are cross-departmental and take a thoughtful, long-term approach to sustainability challenges. They identify immediate priorities for the company, continuously monitor progress and—with an eye towards emerging risks and opportunities—change course when necessary.

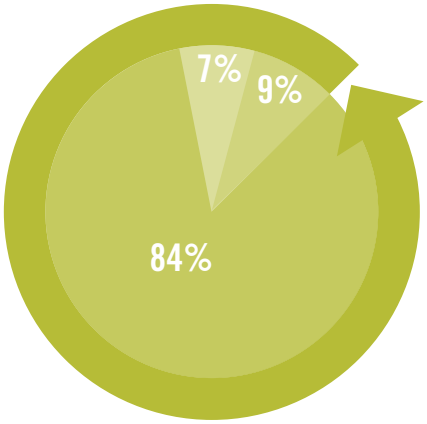
CERES ROADMAP EXPECTATION:

EXECUTIVE COMPENSATION TIED TO ESG PERFORMANCE

Sustainability performance results are a core component of compensation packages and incentive plans for all executives.

Key Finding

Executive Compensation Tied to ESG Performance



7% ***Tie executive compensation explicitly to ESG performance targets***

9% ***Tie executive compensation to ESG, but do not cite explicit targets***

84% ***Do not link ESG performance to executive compensation***

Investors expect corporate executives to be compensated based on their company's financial performance. Increasingly, we are seeing the direct impacts that sustainability risks and opportunities can have on business—from the costs savings found through implementing energy efficiency strategies to the reputational risks of sourcing materials from irresponsible suppliers. Given the business case, investors are starting to ask companies to incentivize sustainability performance and build ESG criteria into compensation systems, a trend expected to expand in the future.

Despite such efforts, this evaluation shows that while compensation linkages to ESG performance are gaining support, they are still an anomaly. Of the 600 companies assessed, only seven percent (39 companies) have formally tied ESG performance to executive compensation, while an additional nine percent (53 companies) are making such linkages without explicitly disclosing related targets and weights. There is a huge opportunity for action across all sectors.

Most of the companies that explicitly link ESG performance to executive compensation focus on health and safety and/or diversity targets, but a small number are broadening the scope to include a more complete range of sustainability performance criteria. This is a critical step in developing accountability mechanisms that recognize the interconnectedness between social, environmental and traditional business performance.

A clear trend setter is *Intel* which, since 2008, has linked the variable compensation package of each of its employees, including executives, to the company's achievement of environmental sustainability metrics in three areas: energy efficiency of products, reductions in greenhouse gas (GHG) emissions and energy use, and improvements in its reputation as an environmental leader. In the four years since this program started, Intel has reduced energy use by 8 percent and its GHG emissions by 23 percent.

Xcel Energy's executive compensation package is based on a number of performance measures including not only safety targets, but also environmental performance targets such as increasing the amount of renewable energy available for commercial operation, reducing emissions, improving energy efficiency and integrating new technologies.

To determine incentive compensation for executives and other employees, *Campbell Soup* uses a "balanced scorecard" that includes sustainability performance metrics. These include energy and water use reductions, increasing recycling efficiency, improving diversity and advancing renewable energy projects. Bonuses for *Delta's* corporate and divisional executives are tied to performance against the company's annual "Flight Plan," a set of priorities that drive company initiatives. In 2011, the Flight Plan included a goal to "improve fuel consumption per block hour through ground, flight, and aircraft initiatives," demonstrating the company's commitment to reducing its large energy footprint.

CERES ROADMAP EXPECTATION:

CORPORATE POLICIES AND MANAGEMENT SYSTEMS

Companies will embed sustainability considerations into corporate policies and risk management systems to guide day-to-day decision-making.

Key Finding

Most companies have adopted policies that cover broad international norms for corporate conduct and that are compliance-oriented, such as bribery and corruption (97 percent) and elimination of discrimination (92 percent).

Oversight for sustainability requires keen attention to international environmental and human rights standards along with sector-specific criteria, such as biodiversity or responsible lending practices. For this expectation, social and environmental sustainability policies were evaluated, as well management systems for implementing those policies.

The assessment found that most companies evaluated have adopted policies based on international norms, but fewer companies are adopting sector-specific policies, which tend to address areas of direct exposure and impact. Across the 600 companies assessed, the most frequently instituted policies include those that address bribery and corruption and elimination of discrimination, as well as policies stating overall environmental sustainability objectives.

Companies that adopt international standards, such as the International Labor Organization's (ILO) core conventions and are signatories to the United Nations' Global Compact (UNGC), demonstrate both an understanding of the importance of sustainability issues and a commitment to implement changes in their business. Using these frameworks and transparently disclosing the impacts they have on the business can provide international legitimacy to a company's sustainability commitment and sends a signal to investors in global markets. Companies including *GE* and *Manpower Group* have adopted both of these frameworks. However, when analyzing the 600 companies only 7 percent (42 companies) were found to be signatories to the UNGC. Applying codes based upon international standards is important, but it is not enough to simply be a signatory, companies must also demonstrate how they are integrating these standards into business decision-making.

Depending upon business impacts, companies may also adopt sector-oriented sustainability policies. One example is the Equator Principles. The Principles are a credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions.[4] Some financial services companies are taking the Equator Principles and expanding their application beyond project financing to other lending practices. Of the 19 companies to which the principles apply in the Financial Services and Banking & Insurer sectors, only four—*Bank of America, Citigroup, JP Morgan* and *Wells Fargo*—are signatories.

For businesses engaged in natural resource extraction, operations can significantly affect the livelihood and cultural integrity of indigenous communities that maintain strong cultural, economic and spiritual ties to traditional lands and resources. That's why customized policies and management systems are a critical first step in soliciting a "social license to operate" from local communities for such companies. Within the Materials and Oil & Gas sectors, 23 percent of companies (10 of 44 companies) have policies concerning indigenous people and land rights, despite the social and environmental impacts that these companies can have on the communities within which they operate.

Companies must also demonstrate how they are implementing policies that address material social and environmental risks across all direct global operations, subsidiaries, joint ventures and suppliers. *Citigroup*, for example, employs a robust Environmental and Social Risk Management policy that governs major transactions and guides decision-making. The policy has enhanced due diligence around specific sectors, including forestry, mountaintop removal mining, nuclear and coal-fired power plants, as well as standards for transactions in emerging markets. Policies, however, are only useful if they are applied in a consistent and credible manner that leads to improved performance. In their public disclosures companies need to make a direct connection between strong policies, management systems and actual performance impacts.

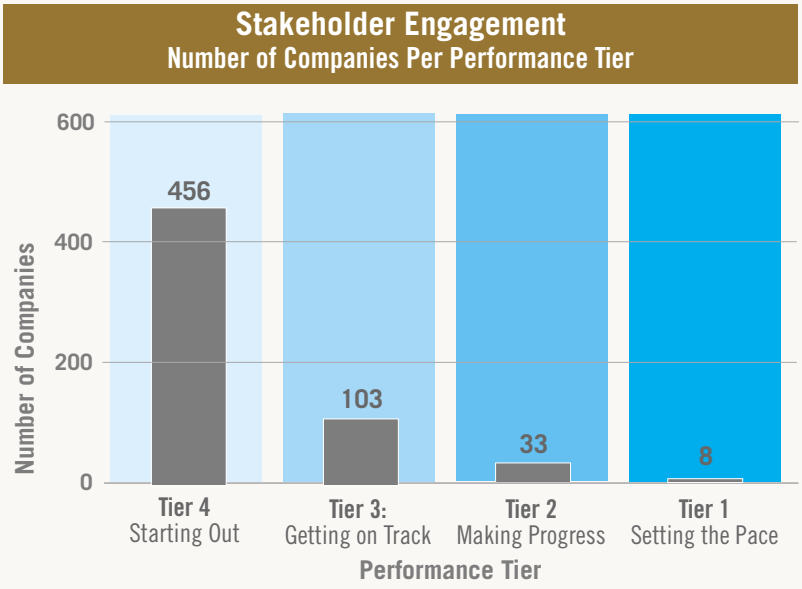
Environmental management systems (EMS) are now a baseline expectation for investors and other stakeholders who want assurances that companies understand potential risks and are taking steps to mitigate those risks. Of the 600 companies, 58 percent (350 companies) have implemented formal environmental management systems. Yet only 12 percent (71 companies) have their EMS externally verified. External verification to international standards, such as the International Organization for Standardization (ISO) 14001, enhances credibility to external stakeholders, particularly investors. Despite the considerable uptake of EMS, comparable systems to monitor social risks are lacking. For example, compared to the 58 percent of companies with an EMS, only 25 percent have a formal supply chain monitoring program in place.

4 Equator Principles. "About the Equator Principles." Retrieved from http://www.equator-principles.com/index.php/about-ep on April 16, 2012.

STAKEHOLDER ENGAGEMENT

VISION: COMPANIES WILL REGULARLY ENGAGE IN ROBUST DIALOGUE WITH STAKEHOLDERS ACROSS THE WHOLE VALUE CHAIN, AND WILL INTEGRATE STAKEHOLDER FEEDBACK INTO STRATEGIC PLANNING AND OPERATIONAL DECISION-MAKING.

Key Finding



Robust stakeholder engagement—with employees, NGOs, local communities and investors—is invaluable for identifying key risks and opportunities on pressing sustainability challenges. Almost 24 percent of companies are demonstrating some degree of meaningful stakeholder engagement, whereas nearly half of the companies assessed do not disclose their engagements.

Leaders in this arena conduct frequent, substantive and diverse engagements with an array of key stakeholders, including investors. They seek feedback and take criticisms seriously, disclosing this dialogue in a transparent way that encourages ongoing engagement and evaluation. The 41 companies—seven percent—included in Tiers 1 and 2 for overall Stakeholder Engagement efforts are also assimilating this extensive feedback into strategic planning, business decisions, reporting frameworks and formal goal setting.

The 600 companies were assessed across key areas of stakeholder engagement, such as focused engagement activity, substantive stakeholder dialogue and investor engagement. These criteria for stakeholder engagement are sophisticated and require a leadership commitment to meet the expectations set in the *Roadmap*. Additional analysis was provided for companies in the nine priority sectors and the analysis can be found in the web report at www.ceres.org/roadto2020.

CERES ROADMAP EXPECTATION:

FOCUS ENGAGEMENT ACTIVITY

Companies will systematically identify a diverse group of stakeholders and regularly engage with them on sustainability risks and opportunities, including materiality analysis.

Key Finding

Nearly 30 percent (171 companies) are providing some level of disclosure on efforts to engage in dialogue with external stakeholders.

For this expectation, companies were evaluated for public disclosure of stakeholder mapping, engagement activity, feedback gathered and the company's response to stakeholder guidance, as well as company efforts to include stakeholders in the determination of strategic priorities. Of the 600 companies evaluated, nearly 30 percent (171 companies) are providing some level of disclosure on efforts to engage in dialogue with external stakeholders.

Through stakeholder mapping, companies can systematically identify key stakeholders, determine material issues of interest for those groups and ascertain specific stakeholders that can help with the prioritization of key areas requiring action. The most effective multi-stakeholder engagement strategies will solicit a diversity of perspectives including those of investors, local communities, indigenous groups, customers, employees, contractors and suppliers and civil society (unions, NGOs, etc.).

Comerica's Sustainability Report clearly identifies key stakeholders and its efforts to engage each group. It also provides a stakeholder overlay to a materiality matrix that maps areas of exposure onto a grid, identifying level of impact for the company and importance to stakeholders. *Baxter International* and *Kimberly Clark* also provide detailed mappings of their stakeholders, including an explanation of material issues and examples of engagement unique to each group.

Companies that disclose their response to stakeholder input greatly increase the credibility of the stakeholder engagement process. *Citigroup* and *Best Buy* include specific details of stakeholder input in their sustainability reports and provide an explanation of how the company is addressing this feedback in their disclosure, strategies and programs. Companies can add further candor to their sustainability reporting by providing unedited stakeholder perspectives. These perspectives, found in the sustainability reports of *Gap, GE* and others, address material issues and provide a diverse array of opinions. The inclusion of candid stakeholder perspectives demonstrates transparency and provides the basis for ongoing engagement on key issues.

Of the companies assessed, more than 70 percent (429 companies) provide no disclosure on stakeholder engagement based on the criteria identified above. With the significant insights that can be gained through stakeholder dialogue, more companies should be leveraging such opportunities.

☑ ***The most effective multi-stakeholder engagement strategies will solicit a diversity of perspectives including those of investors, local communities, indigenous groups, customers, employees, contractors and suppliers and civil society (unions, NGOs, etc.).***

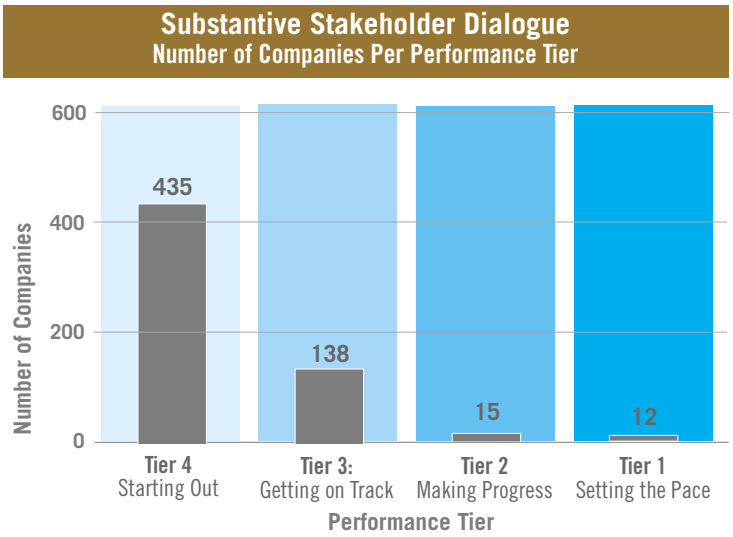
CERES ROADMAP EXPECTATION:

SUBSTANTIVE STAKEHOLDER DIALOGUE

Companies will engage stakeholders in a manner that is ongoing, in-depth, timely and involves all appropriate parts of the business. Companies will disclose how they are incorporating stakeholder input into corporate strategy and business decision-making.

Key Finding

Only five percent of companies (27) are in Tiers 1 and 2 for substantive engagement, defined by ongoing engagement with diverse stakeholder groups, executive-level engagement with key stakeholders, participation in industry-relevant multi-stakeholder initiatives and inclusion of stakeholder feedback in the shaping of sustainability strategy and targets.



Once companies have identified key stakeholders, a framework for regular and proactive engagement is required. Engagement strategies can vary depending upon the stakeholder group involved, as may the frequency of engagement, but the overriding objective should be the incorporation of stakeholder feedback into corporate strategy and business decision-making.

To measure progress against this expectation, we evaluated the extent of a company's stakeholder engagement efforts. Of the companies evaluated, 28 percent (165 companies) disclose the details of stakeholder outreach. Of those, only 5 percent (27 companies) are included in Tiers 1 and 2 demonstrating leadership for activities including ongoing engagement with diverse stakeholder groups, executive-level engagement with key stakeholders, participation in industry-relevant multi-stakeholder initiatives and inclusion of stakeholder feedback in the shaping of sustainability strategy and targets.

Communication between companies and stakeholders should flow in both directions. It is becoming increasingly common for companies to establish an ongoing stakeholder process that involves a series of dialogues. These discussions evolve over time and allow companies to gather stakeholder feedback on strategic decisions including goals and targets and policy setting, as well as insights on key performance challenges or emerging issues for the sector. Companies, including *Ford Motor Company* and *State Street*, conduct year over year engagements with a consistent multi-stakeholder group and disclose details of how these engagements impact priority setting for the business.

Engagement can take many forms. Employees, suppliers and distributors can be engaged through quarterly surveys and town-hall style meetings. Community Action Panels are an effective means of engaging local community members, while Investor Perception surveys enable companies to obtain investor feedback on specific issues. Companies like *Ingersoll Rand* have developed multi-stakeholder Advisory Panels comprising prominent external leaders on material issues, to help guide and integrate sustainability into daily operations.

Often companies will limit their engagement with stakeholders to a discussion of their annual sustainability report. This is a good first step, but not enough when you consider that failure to regularly and proactively engage stakeholders can increase the risk of litigation, reputational damage and subsequent loss of shareholder value. High profile issues such as oil spills, allegations of fraud or human rights violations demand immediate proactive engagement, rather than a delayed discussion at the next quarterly or annual meeting. Companies, such as *Dow Chemical*, have started providing bi-annual updates on their sustainability progress with qualitative and quantitative information on various material performance metrics. These updates show stakeholders that the company is not only listening, but also proactively working to mitigate risks.

CERES ROADMAP EXPECTATION:

INVESTOR ENGAGEMENT

Companies will address specific sustainability risks and opportunities during annual meetings, analyst calls and other investor communications.

Key Finding

The high bar set for this expectation resulted in no companies making it into Tier 1, but the nearly eight percent of companies (45) included in Tier 2 are making progress to enhance sustainability communications with investors.

Investors are critical stakeholders and can wield considerable influence on the sustainability strategy, goals and performance of the companies they own. Leading practice for this expectation requires companies to communicate both sustainability risks and opportunities to investors at their annual general meetings, during analyst calls, in their financial filings and throughout other mainstream investor communications. Despite a considerable increase in reporting and disclosure, however, sustainability remains absent from most companies' communications with investors. Both companies and investors have a role to play—for companies it is to provide quality data and analysis, as well as directing investors to this information; for investors it is to request information regarding sustainability risks when engaging with companies and to reward companies for improved sustainability performance. In this assessment no companies made it into Tier 1, but the 45 companies included in Tier 2 are making strides to increase sustainability-related communication and direct engagement with the investment community.

The failure of companies to adequately disclose sustainability information within mainstream investor communications has prompted independent financial research providers to fill the gap by including sustainability information as part of their data services. Bloomberg, for example, has added ESG data to its equity platform, allowing analysts, portfolio managers and investors to access centralized sustainability data reported by companies just as they access financial data.

For this data to be meaningful, however, companies must provide high quality information that covers the full range of material sustainability issues. Though privately held, Bloomberg released its own sustainability report to illustrate to other companies the quality of sustainability data that should be provided to analysts, portfolio managers and investors in a consistent and comparable format. For example, Bloomberg produced a financial environmental summary stating that for every $1 invested in environmental management it saved $2 in operating costs, and details how it achieved these results.

As ESG criteria become increasingly integrated in mainstream investment decisions, investors are looking for clearer articulation from companies on the material risks of environmental and social exposure. *EMC* and *Intel* are starting to share information regarding sustainability goals and performance with investors through a variety of forums including shareholder meetings, proxy letters, investor packets and investor conferences. However, these companies are the exception—not the rule.

CASE STUDY

INTEGRATED REPORTING

A small but growing number of global companies, including *Novo Nordisk* and *Puma*, are using their Sustainability Reports to make the business case for their environmental investments and efforts. These attempts to integrate sustainability investments and business impacts are especially important given the growth of integrated reporting. A handful of U.S. companies evaluated in this report have started experimenting with this type of communication. While not fully integrated, companies including *American Electric Power, Baxter International, Eaton Corporation, Pfizer, Clorox* and *United Technologies* have published reports that combine some degree of financial and sustainability information into one report.

Although this trend is growing, without a common structure these reports continue to take many different forms. The International Integrated Reporting Committee (IRRC) has taken on the task of engaging companies, investors, advocacy groups and the accounting community to develop a global and internationally accepted framework for integrated reporting. In September 2011, the group released a discussion paper for public comment, and is currently running a pilot project with 61 companies.

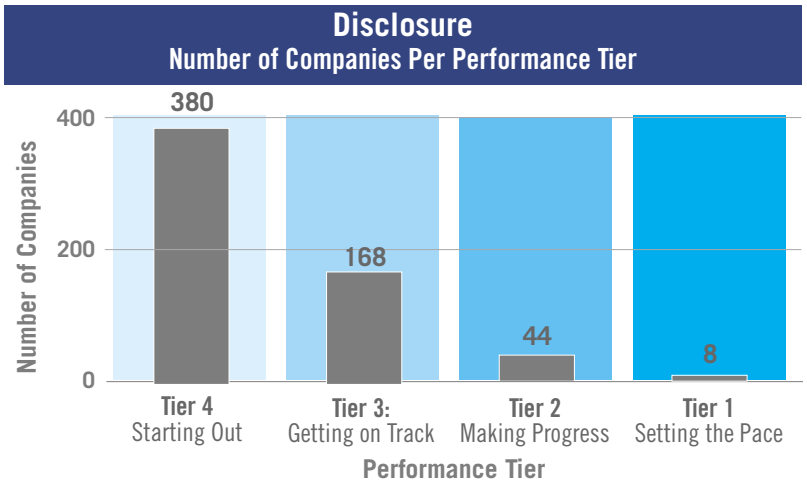
Companies considering integrated reporting as a method to better engage investors should ensure that they maintain ongoing communications with the non-financial community—including consumers, community organizations and employees in a robust and credible manner. Integrated reporting should not merely be considered a communication vehicle, but a strategy for integrating sustainability into traditional business decision-making that translates into tangible, performance improvements.

DISCLOSURE

VISION: COMPANIES WILL REPORT REGULARLY ON THEIR SUSTAINABILITY STRATEGY AND PERFORMANCE. DISCLOSURE WILL INCLUDE CREDIBLE, STANDARDIZED, INDEPENDENTLY VERIFIED METRICS ENCOMPASSING ALL MATERIAL STAKEHOLDER CONCERNS, AND DETAIL GOALS AND PLANS FOR FUTURE ACTION.

Key Finding

Of the companies assessed, 9 percent (52 companies) are included in Tiers 1 and 2 for overall disclosure efforts, including alignment with the Global Reporting Initiative (GRI) guidelines, disclosure of sustainability risks and opportunities in financial f ilings and external verification of sustainability reporting.



In order for investors and other stakeholders to understand and evaluate a company's sustainability performance, detailed and comprehensive sustainability data must be disclosed in a timely and consistent manner through various channels. Leading companies are adapting and diversifying their sustainability communication strategies. Sustainability information is now being delivered through a variety of vehicles—corporate social responsibility (CSR) websites, sustainability reports, financial filings, and social media—ensuring that a wide-range of stakeholders are reached.

The 600 companies were assessed across key areas of disclosure, including standards for disclosure, disclosure in financial filings, vehicles for disclosure, as well as verification and assurance. Additional analysis was provided for companies in the nine priority sectors and the analysis can be found in the web report at www.ceres.org/roadto2020.

Of the companies assessed, 9 percent (52 companies) are included in Tiers 1 and 2 for the Disclosure chapter expectations, with the Food & Beverage and Utilities sectors demonstrating leadership, followed by Materials and Autos & Transportation. More than 60 percent of the companies (380) assessed were included in Tier 4 based on their lack of alignment with the Global Reporting Initiative (GRI) guidelines, lack of disclosure in financial filings and negligible external verification.

While corporate disclosure on environmental factors continues to improve, other notable areas of reporting have received considerably less attention. Companies should also be demonstrating a consistent level of transparency on key areas of social impact—such as supply chain management, labor issues, diversity, health and safety and community relations, to name a few. Companies must also consider the interconnectedness of social and environmental impact areas and disclose how the business is taking a holistic approach to the design of its sustainability strategy and programs.

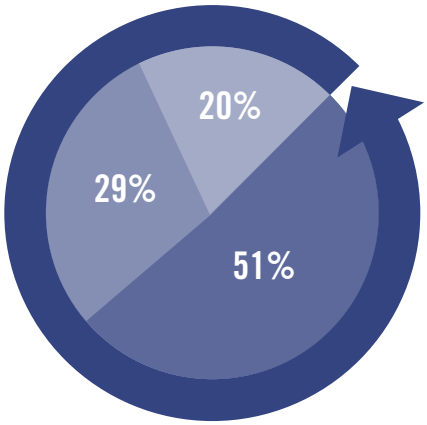
CERES ROADMAP EXPECTATION:

STANDARDS FOR DISCLOSURE

Companies will disclose all relevant sustainability information using Global Reporting Initiative (GRI) Guidelines, as well as additional sector-relevant indicators.

Key Finding

Standards for Disclosure



29% ***Publish reports using the GRI guidelines***

20% ***Publish reports, but do not use the GRI guidelines***

51% ***Do not publish sustainability reports***

Companies crafting financial filings have long relied upon a common standard, whether it be the Generally Accepted Accounting Principles (GAAP) or the International Financial Reporting Standards (IFRS). Shared standards and definitions facilitate performance comparisons and remove much of the confusion that comes with a large assortment of data. The same holds true for sustainability disclosure, with the Global Reporting Initiative (GRI) Guidelines considered to be the internationally accepted standard for sustainability reporting.

Of the companies evaluated, 49 percent (293 companies) are publishing sustainability reports and 29 percent (176 companies) are using the GRI guidelines in the development of those reports, in some cases using one of the Sector Supplements. The GRI Sector Supplements provide additional guidance for the disclosure of specific issues relevant to a particular sector. Those companies included in Tier 1 and Tier 2 are publishing reports in accordance with the GRI guidelines, with the 23 companies in Tier 1 achieving a level "A" GRI report. According to the GRI, U.S. companies are lagging behind their European counterparts in GRI reporting; however, there is an upward trend. According to recent estimates, there was an increase of approximately 35 percent in GRI reporters in the U.S. from 2010 to 2011 alone.[5]

CASE STUDY

DECIDING WHAT IS MATERIAL

A substantial part of the International Integrated Reporting Committee's (IIRC) deliberations revolves around the concept of materiality, or identifying the most relevant/significant issues "that influence the decisions, actions and performance of an organization or its stakeholders." To date, most companies follow separate processes to identify materiality from a business perspective, versus materiality from a sustainability perspective. The trend toward integrated reporting, which brings sustainability and financial reporting under a single umbrella, requires a reconciliation of these varying approaches to materiality. The Sustainability Accounting Standards Board (SASB) has taken on this challenge in the U.S. context, and is working to develop industry based sustainability standards to guide corporations and investors on material issues for disclosure in financial filing such as the 10-K. A key task for the SASB will involve identifying an approach to materiality that is not purely linked to financial thresholds, given that many environmental and social issues cannot be easily reduced to dollars and cents. SASB will also take on the task of obtaining industry buy-in, so that corporate disclosure of material issues is consistent and comparable.

5 Wallace, Mike. "What GRI Learned in Its First Year in America." GreenBiz.com February 28, 2012. Retrieved from http://www.greenbiz.com/blog/2012/02/28/what-gri-learned-its-first-year-america.

CERES ROADMAP EXPECTATION:

DISCLOSURE IN FINANCIAL FILINGS

Companies will disclose material sustainability issues in financial filings.

Key Finding

Thirty-nine percent of companies (232) are at least minimally addressing ESG risks within their financial filings. Of those, 118 are providing a more comprehensive assessment of ESG risks, including water scarcity or the potential impacts that climate change could have on material sourcing and the stability of supply chains.

In 2010, the Investor Network on Climate Risk (INCR), a coalition of 100 institutional investors with $10 trillion in assets under management, successfully worked with the U.S. Securities and Exchange Commission (SEC) to issue guidance requiring the disclosure of climate-related risk in financial filings where climate change posed material risks to the business. This sent a signal that companies should take a look at all potential material sustainability risks and determine what should be disclosed. Of the 600 companies assessed, 39 percent (232) are at least minimally addressing ESG risks within their financial filings, though for most this translates to briefly addressing the risks that emissions regulation or more comprehensive climate legislation could present.

Those companies included in Tiers 1 and 2, representing nearly 20 percent (118) of the companies evaluated, are beginning to provide a more comprehensive assessment of ESG risks including water scarcity or the potential impacts that climate change could have on material sourcing and the stability of supply chains, as well as the demand for more sustainable products and services. For example, *PepsiCo's* FY2010 10-K filing looks beyond the potential costs of climate-change legislation and examines the risk of climate-change itself. The company identifies possible supply chain disruptions, including decreased supply and increased prices concerning water and agricultural output, which may occur following rises in temperature and the increased frequency of extreme weather conditions. PepsiCo also identifies the reputational risk, and subsequent negative impact on sales, of failing to maintain high ethical, social and environmental standards. This includes failing to meet goals concerning energy use, waste management, as well as sodium, saturated fat and sugar reduction in its products. PepsiCo's proactive identification of these material risks better positions the company to address them, while prompting its investors to demand continued improvement and putting pressures on peer companies to follow suit.

Some companies also identify opportunities for capturing new markets through the development of products and services that are more sustainably manufactured or provide solutions to sustainability challenges. In its annual financial filings, *Weyerhaeuser* discloses to investors its longer-term business strategy for taking advantage of new market opportunities and the demand for sustainable forestry products. In *General Motor's* financial filings, the company details its research and development strategy focused on fuel efficiency and alternative fuel vehicles—highlighting this work as its top research priority and stating its objective to be a recognized industry leader in fuel efficiency.

CASE STUDY

PHYSICAL RISK DISCLOSURE IN THE 10-K

Increasingly, climate-related severe weather events are having negative impacts on businesses. Last year alone saw a record 14 natural disasters in the U.S. that each caused more than $1 billion in damage. Extreme heat waves, hurricanes, tornadoes, floods and droughts have affected the bottom lines of businesses in a range of sectors from apparel companies to insurers.

Investors have been concerned about the physical risks from climate change for a number of years and following the SEC's interpretive guidance on climate change disclosure, there is a growing expectation that companies will discuss these material risks in their financial filings. To help companies and investors navigate these evolving disclosure expectations, in 2012 Ceres, Calvert and Oxfam released ***Physical Risks from Climate Change: A Guide for Companies and Investors on Disclosure and Management of Climate Impacts.*** The report provides real world examples of business impacts, as well as key questions and steps to consider in disclosing the assessment and management of the physical impacts of climate change.

CERES ROADMAP EXPECTATION:

VEHICLES FOR DISCLOSURE

Companies will release sustainability information through a range of disclosure vehicles, including stand-alone reports, annual reports, financial filings, websites and social media.

Key Finding

Thirty percent of companies (177) are included in Tiers 1 and 2 for the release of sustainability information through a range of disclosure vehicles, demonstrating that there is significant room for improvement from companies across all sectors.

The incredible uptake of social media and social networking over the past several years has forced companies to re-evaluate what it means to be "transparent" in a world of radical transparency. A shift to web-based reporting has also brought with it new technologies focused on engaging the user in innovative ways and creating a customized "report experience." Companies should disclose sustainability performance data through a range of channels to ensure they are reaching a wide variety of key stakeholders.

What may be an effective communication strategy for one stakeholder group may be poorly suited for another. For example, the inclusion of sustainability information within financial filings is a key mechanism for reaching investors, while a stand-alone report may be more accessible to community stakeholders. The indicators for this expectation focused on several disclosure vehicles including sustainability reports, annual reports, financial filings, mainstream investor communications and issue-focused surveys. Of the 600 companies, 30 percent of companies (177) are included in Tiers 1 and 2, demonstrating that there is room for improvement by companies across sectors.

Sustainability reporting is becoming the norm, with 49 percent of companies (293) evaluated producing stand-alone reports. With online reporting on the rise, companies are also communicating performance trends to stakeholders through interactive web platforms. For example, *Hewlett-Packard's* interactive data dashboard presents up to five years of trend data for energy, GHG emissions, waste, water and product reuse and recycling, and also supports interactive links driving stakeholders to relevant graphs and targets.

Many companies are also distributing sustainability information through Facebook, Twitter and company blogs. *American Electric Power*, for example, compiles the social media "chatter" received about the company and distributes it to its managers on a daily basis, providing stakeholder concerns and opinions in real-time. *AMD's* Corporate Responsibility blog features authors from across the company on topics of interest, including what sustainability leadership means to AMD executives or how the company is engaging employees to drive product innovation. The blog also looks to educate employees on key sustainability challenges for the company and its sector, such as the sourcing of conflict minerals—tin, tantalum and tungsten—from the Democratic Republic of Congo.

The assessment also found that companies are taking advantage of surveys issued by organizations such as the Carbon Disclosure Project (CDP); yet the limited audience these databases serve should be noted. Of the companies evaluated within this report, 513 were approached by CDP. Of those companies, approximately 70 percent (359 companies) provided some response to the survey's request for climate emissions data versus only 49 percent (293 companies) publishing full sustainability reports.

CERES ROADMAP EXPECTATION:

VERIFICATION AND ASSURANCE

Companies will verify key sustainability performance data to ensure valid results and will have their disclosures reviewed by an independent, credible third party.

Key Finding

Of the companies assessed, seven percent (37 companies) are included in Tiers 1 and 2 for verifying their disclosure.

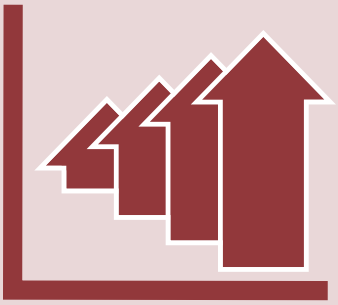
All publicly traded U.S. companies are required to have their financial statements independently audited to the internationally respected GAAP standard. The purpose of the independent audit is to assure shareholders that the company has accurately communicated its position and performance for the reporting period. ESG performance data is vulnerable to the same (if not greater) misrepresentation as financial performance data; thus, it should be similarly verified by an independent third-party and to an internationally respected standard.

The indicators we used to evaluate this expectation assessed whether a company's disclosure was externally verified and if the company verified its report to an internally recognized standard. Only six percent (37) of the 600 companies fall into Tiers 1 or 2, and only 1.5 percent (nine companies) were included in Tier 1 for verifying their disclosure to an internationally respected standard, such as International Standard on Assurance Engagements (ISAE) 3000 or AccountAbility (AA) 1000 Assurance Standard[6]. For example, *Kraft Foods'* 2010 sustainability report is externally verified by Environmental Resources Management, according to AA 1000.

As companies move toward integrating sustainability data within their financial filings, many will likely use the same auditor for both their financial filings and sustainability reporting. This not only capitalizes on natural synergies and creates cost efficiencies, but also formalizes the importance of sustainability reporting internally by giving it similar weighting as financial data. *UPS* uses Deloitte to audit both its financial and sustainability reporting. The company reports that this alignment allows its CSR team to build the internal business case for sustainability. Similarly, *Alcoa* uses PriceWaterhouseCoopers to audit both CSR reporting and financial filings.

The accountability-focused aspects of the *Roadmap*—governance, stakeholder engagement and disclosure—provide the systems and structure for integrating sustainability into the DNA of the company. They are, however, a means to an end—performance is the true measure of where a company is on the road to sustainability. Businesses need to meet both the accountability and the performance expectations of the *Roadmap* to have a comprehensive and effective sustainable business strategy.

6 The AA1000 Assurance Standard is a sustainability assurance standard developed by AccountAbility, an independent multi-stakeholder non-profit. The International Standard on Assurance Engagements (ISAE) 3000 is an assurance standard developed by the International Federation of Accountants' (IFAC) International Auditing and Assurance Standards Board (IAASB) for all assurance engagements other than audits or reviews of historical financial information covered by International Standards on Auditing (ISA)s and International Standard on Review Engagements (ISRE)s.



PERFORMANCE

Performance is about achieving on-the-ground results, such as reductions in carbon emission and water use, procurement of renewable energy, improved energy efficiency, a supply chain that meets high environmental and social standards and products designed to not only minimize environmental and social impacts throughout their life cycle, but serve as *solutions* to key sustainability challenges.

The *Roadmap* addresses five specific performance areas for the 21st century sustainable corporation: **operations; supply chains; transportation and logistics; products and services;** and **employees**. For each of these areas, the Roadmap also identifies specific expectations where companies should focus their sustainability efforts. For example, through their operations companies should be working to reduce GHG emissions, improve water management and protect human rights. Within global supply chains, companies should demand the same standards they set for themselves by aligning supply chain policies and codes with international standards, integrating sustainability criteria into procurement decisions and engaging with suppliers to improve their sustainability performance and disclosure.

While the expectations covered in the first three chapters—which are focused on accountability measures for sustainability—are equally applied to each of the 600 companies evaluated, in the Performance chapter a more nuanced approach was taken. We recognize that different sectors have different types of environmental and social impacts and exposure, and that leadership in sustainability performance will not necessarily require the same types of action across sectors. For example, the Food & Beverage and Footwear & Apparel sectors are water-intensive with high-risk exposure. The Oil & Gas, Utilities and Transportation sectors are carbon-intensive industries with extraordinary opportunities to demonstrate leadership in GHG reductions. Meanwhile, the Retail and Technology Hardware sectors rely heavily on complex global supply chains and are thus positioned to demonstrate sustainability leadership in supply chain management.

For this reason, the analysis in this chapter is more customized than in the previous three. For some Performance expectations, such as GHG emissions and human rights, the progress of each of the 600 companies was assessed. For others the findings are more sector-specific. Nine priority sectors, covering 251 companies, were studied in depth: **Autos & Transportation, Financial Services, Food & Beverage, Footwear & Apparel, Retail, Technology Hardware, Technology Software & Services, Oil & Gas Producers** and **Electric Utilities**. In some cases, where *Roadmap* expectations were especially relevant to particular sectors, the data analysis may be limited to a subset of the nine priority sectors *(See the methodology for a detailed explanation)*.

This report is our first attempt to measure progress on the *Roadmap*. For each of the expectations, indicators provided by Sustainalytics were used to evaluate company progress. In some cases, indicators with adequate data were not available for each of the expectations, and in others, the indicators may not be broad enough to fully evaluate all of the *Roadmap* expectations. Accordingly, this report assesses company progress across all five performance areas—**operations, supply chain, transportation, products and services** and **employees** but only covers eleven of the twenty detailed performance-specific expectations. In the future, as more data becomes available and the list of indicators is expanded, progress reports will cover additional performance expectations.

This report is designed to be an online experience. We invite you to visit the website to interact with the online charts, which are useful tools for understanding the results, comparing performance of peers within sectors and identifying key opportunities for taking action. The web platform also features details on the methodology and additional analyses for each of the nine priority sectors.

Check it out at www.ceres.org/roadto2020.

OPERATIONS

VISION: COMPANIES WILL INVEST THE NECESSARY RESOURCES TO ACHIEVE ENVIRONMENTAL NEUTRALITY AND TO DEMONSTRATE RESPECT FOR HUMAN RIGHTS IN THEIR OPERATIONS. COMPANIES WILL MEASURE AND IMPROVE PERFORMANCE RELATED TO GHG EMISSIONS, ENERGY EFFICIENCY, FACILITIES AND BUILDINGS, WATER, WASTE, AND HUMAN RIGHTS.

Direct business operations often represent the first opportunity for companies to address and improve sustainability performance. Over the past decade, leading companies have developed innovative strategies to enhance sustainability performance through GHG emission and water use reductions, green building initiatives and human rights programs. These initiatives are not simply good for employees and the environment, they are also good for the bottom line. *McKesson*, for example, saved more than $5 million in 2010 through efforts focused on waste reduction, energy efficiency and improving the fuel efficiency of its fleet. *AT&T* achieved $44 million in annualized energy savings from its energy efficiency programs in 2010.

Although somewhat harder to quantify, programs that address the social impacts of business operations are gaining momentum, especially in sectors with complex global supply chains. Companies are beginning to implement stronger policies, programs and targets related to human rights, working conditions, safety and employee training. They're also doing more to support local communities. That said, social performance impacts have not received the same level of attention and resources from companies as environmental initiatives and a lack of consistent disclosure on social issues makes it challenging to evaluate performance within and across sectors.

In this section, using data gathered by Sustainalytics, company performance was evaluated for operations in the areas of GHG emission and energy efficiency, facilities and buildings, water management and human rights. Some expectations may be more relevant to certain sectors than others, and in some cases, data availability may have limited the sectors we were able to evaluate. If an expectation is focused on a sub-set of the sectors, this is stated. Additional analysis was conducted for the 251 companies included within the nine priority sectors and these sector-specific assessments can be found at www.ceres.org/roadto2020.

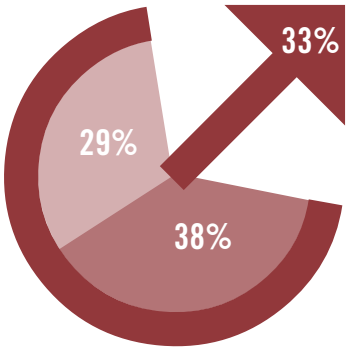
The *Roadmap* focuses on areas where Ceres sees enormous opportunities for impact; however, it does not cover every aspect of sustainability. The *Roadmap* is about going beyond compliance to leadership; issues such as health and safety, regulatory compliance, diversity, and community philanthropy, are important for sustainability, but are not covered in this report.

CERES ROADMAP EXPECTATION:

GHG EMISSIONS & ENERGY EFFICIENCY

Companies will reduce GHG emissions by 25% from their 2005 baseline[7] by 2020 by improving energy efficiency of operations by at least 50%, by reducing electricity demand by at least 15% and by obtaining at least 30% of energy from renewable sources.

Key Finding



Targets to Reduce GHG Emissions

33% ***Have in place time-bound targets for reducing GHG emissions***

38% ***Have in place reduction programs, but no time-bound targets***

29% ***No formal programs in place to reduce GHG emissions***

The urgency of mitigating and addressing the impacts of global climate change is greater than ever before. The *Roadmap* expectations are aligned with the scientific targets recommended by the Intergovernmental Panel on Climate Change (IPCC) that call for the U.S. to achieve reductions of 80 percent below 1990 baseline levels by 2050. To hit that target, companies should be moving now to implement comprehensive climate change strategies that tangibly reduce emissions by improving energy efficiency and sourcing renewable energy.

All 600 companies were evaluated for this expectation. A cross-section of indicators was used to assess not only if companies have programs and targets in place to reduce GHG emissions and increase renewable energy procurement, but also to determine whether those programs are having an impact. Nearly half of the companies (284 companies) are making some progress to reduce Scope 1, 2 and 3[8] GHG emissions by reducing electricity demand, ramping up energy efficiency and procuring renewable energy. A third (193) of the 600 companies evaluated have in place time-bound targets for reducing GHG emissions for direct operations. Though some companies are setting GHG emission reduction targets, they are not necessarily aggressive enough to meet the targets set forth in the *Roadmap*. For example, only nine percent (51 companies) are demonstrating year over year carbon intensity reductions and only seven percent (45 companies) are sourcing more than five percent of their primary power for operations from renewable sources.

Among electric utilities, *Exelon* has been especially aggressive in setting and meeting energy efficiency and GHG emissions reduction goals. The company's 2020 Low Carbon Roadmap includes a commitment to reduce GHG emissions from its operations and through customer clean energy and energy efficiency efforts by more than 15 million metric tons of GHG emissions per year by 2020. The company is already well on its way to meeting its goal, in part through energy efficiency commitments totaling more than $100 million. The 2020 program also extends to the company's customers by offering in-home energy efficiency tools, educational programs and renewable energy credits for retail customers.

GE is seizing energy efficiency gains through its "treasure hunt" initiative, which identifies opportunities for energy savings at its facilities. To date, the company has conducted more than 300 treasure hunts with the average facility reducing energy use by 20 percent. Savings have totaled more than $150 million.

In 2011, global investment in clean energy reached a record high of $260 billion.[9] As such investments increase, and the price per kilowatt-hour from renewables goes down, the procurement of

7 Ceres' position is aligned with scientific targets that call for the U.S. to achieve GHG emission reductions of 80% below 1990 baseline levels by 2050 and at least 25% reduction below 1990 by 2020. This expectation uses 2005 as the baseline as this was consistent with the pending U.S. climate policy legislation that was being put forward in 2010 when the *Roadmap* was released. As a secondary point, in the 1990s many U.S. companies had not yet started to collect GHG emission data. Therefore, determining and disclosing data on GHG emissions prior to 2005 is complicated and prone to inaccuracies.

8 The World Resources Institute (WRI) GHG Protocol defines Scope 1, 2 and 3 emissions as follows: Scope 1 emissions are direct emissions from sources that the company owns or controls; Scope 2 emissions are all indirect emissions that are a consequence of the activities of the company, but occur at sources owned or controlled by another entity; and Scope 3 emissions are other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, etc. Visit http://www.ghgprotocol.org/calculation-tools/faq for more information.

9 Bloomberg New Energy Finance. "Solar Surge Drives Record Clean Energy Investment in 2011." Bloomberg. 12 January 2012. Retrieved from http://www.bnef.com/PressReleases/view/180.

solar, wind and other renewable energy will continue to be one of the most effective ways to reach emission reduction goals. Just over seven percent of the 600 companies evaluated (45 companies) are sourcing more than five percent of their primary energy from renewable sources. *Baxter International* currently sources 18 percent of its energy from renewable sources, with a goal to increase that to 20 percent by 2015.

Kohl's Department Stores achieved net zero emissions in 2010 through its comprehensive GHG emissions reduction strategy. Over 500 of its stores are ENERGY STAR®-labeled indicating that these stores use, on average, 35 percent less energy than similar buildings and generate one-third the carbon emissions. Kohl's also tops the U.S. Environmental Protection Agency's (EPA) Green Power Partnership list of renewable power purchasers, for sourcing 100 percent green power for its U.S. operations. Other top purchasers of renewable energy in the U.S. include *Intel, Johnson & Johnson, Whole Foods, Staples* and *Starbucks*.

In some locations, companies are finding it advantageous to invest in onsite renewable energy generation projects. For example, *Darden Restaurants* recently unveiled a 1.1 megawatt solar panel installation on the rooftop of its Restaurant Support Center in Orlando. The largest private solar array in Florida, the system will generate enough power to subsidize 15 to 20 percent of the building's annual usage.

CASE STUDY

SCOPE 3 EMISSIONS

For many companies, the largest contributor to the carbon footprint falls outside of direct operations. In 2011, the World Resources Institute (WRI) and World Business Council for Sustainable Development (WBCSD) released the Corporate Value Chain (Scope 3) and Product Lifecycle Standards. The new standards were created to help businesses better measure, understand and comparably disclose the GHG emissions related to products and the supply chain. Increasingly companies are using the guidance to gain a more comprehensive understanding of their GHG emission impacts and are finding ways to reduce impacts throughout the value chain. Road testers of the new protocol include *Autodesk, IBM* and *Pfizer*, among others.

For this evaluation, we examined the disclosure of Scope 3 emissions across 145 companies, representing six of the nine priority sectors—Autos & Transportation, Financial Services, Food & Beverage, Footwear & Apparel, Retailers and Technology Hardware. Among this group of companies only 17 percent (25 companies) disclosed some level of Scope 3 emissions beyond business travel and only seven companies went further and disclosed product and/or supply chain emissions.

CERES ROADMAP EXPECTATION:

FACILITIES & BUILDINGS

Companies will ensure that at least 50% of their owned or leased facilities, and all new construction, will meet rigorous green buildings standards. When siting facilities, companies will follow best practices that incorporate sustainable land-use and smart growth considerations.

Globally, buildings consume roughly 40 percent of the world's total energy. In the U.S. alone each year, buildings are responsible for approximately 38 percent of carbon dioxide emissions, 68 percent of electricity consumption and 12 percent of water consumption.[10] "Green" buildings—known for enhancing efficiency and reducing materials, energy, and space used—present a compelling opportunity for companies seeking financial and sustainability performance gains.

The indicator used to measure this expectation assesses the performance of companies from four sectors on programs and targets for investments in sustainable buildings. As we progress towards 2020, it is expected that an increasing number of companies across sectors will implement green building requirements for owned and leased facilities. In future reports, we will adapt the indicators to capture this data more explicitly and across a wider range of sectors.

The four sectors evaluated against this expectation include **Financial Services, Footwear & Apparel, Retail** and **Technology Hardware**. Sixty percent of companies (61 of 102 companies) evaluated have made some investment in sustainable buildings, but only the 10 percent (11 companies) in Tier 1 have detailed programs in place for increasing investments in sustainable buildings, including specific targets and deadlines. Most of these companies are in the Retail sector where energy costs are a clear driver for improving resource efficiency.

Best Buy currently has 22 stores that are LEED certified, with more than 50 others in the process of being certified. The company is retrofitting its existing stores with skylights and dimmable fluorescent lighting allowing them to take advantage of "daylight harvesting." Best Buy's green building program helped to reduce GHG emissions at U.S. store operations by 15 percent in fiscal 2010 (compared to 2005). It has also saved nearly $3 million through HVAC and lighting adjustments.

In addition to traditional buildings, data centers, the facilities that house large volumes of Internet infrastructure, are significant users of energy. According to the Electric Power Research Institute, data centers use 10 to 20 times more energy per square foot than a typical commercial building.[11] Despite an increasing focus on data center energy efficiency, the growth of data center energy use is fast and it now accounts for roughly 2 percent of the nation's annual electricity consumption.[12] The transition to cloud computing, where a company's data is managed as an overall service versus relying on private in-house data centers, is touted as a critical solution for saving energy and emissions. However, the degree of impact depends on the type of energy used to power the data center and how efficiently it is designed and managed. Given the vast amount of information being accessed and created on a daily basis—for example, there are one billion Google searches[13] and 200 million Tweets[14] per day—energy use and GHG emissions are likely to increase.

Within this context, it is not surprising to find that 70 percent of the Technology Hardware companies are making some investments in sustainable buildings—but with only 11 percent (3 of 27 companies) in Tier 1 there is still much room for improvement. Tier 1 company, *EMC*, is currently building a new energy-efficient "virtual data center" that will move data from physical storage to an entirely virtualized IT infrastructure. This technology uses software solutions to support IT systems run from centralized servers. The company's shift to virtual storage has already produced a 75 percent gain in storage utilization along with savings of roughly $23 million in operating expenses.

CASE STUDY

SOURCING RENEWABLE ENERGY FOR DATA CENTERS

Recognizing that the most effective way to reduce absolute emissions over time is to power a facility with renewable energy, *eBay* sought to power its LEED Gold-certified data center in Utah with renewable energy. However, Utah law prohibited non-utility energy consumers from buying power directly from renewable energy developers. Leveraging its influence and resources, eBay partnered with a coalition of stakeholders, including other data center operators, to win passage of legislation allowing renewable energy purchases from third-party providers. The new law goes into effect in the summer of 2012.

eBay is a prime example of a company that has aligned its sustainability objectives with its public policies. The company will now be able to cut its absolute emissions significantly, while also hedging against potential price increases for fossil fuel-based power.

10 United States Environmental Protection Agency. "Why Build Green?" EPA.gov. Retrieved from http://www.epa.gov/greenbuilding/pubs/whybuild.htm on April 16, 2012.

11 Fahey, Jonathan. "Google Energy Use: Company Reveals Information To Show That Search Is Green." Huffington Post. 9 August 2011. Retrieved from http://www.huffingtonpost.com/2011/09/08/google-energy-use_n_954097.html.

12 ibid

13 Lohr, Steve. "Google Schools Its Algorithm." New York Times. 5 March 2011. Retrieved from http://www.nytimes.com/2011/03/06/weekinreview/06lohr.html?_r=3&pagewanted=1&hpw.

14 Twitter Blog. "Your World More Connected." Twitter. 1 August 2011. Retrieved from http://blog.twitter.com/2011/08/your-world-more-connected.html.

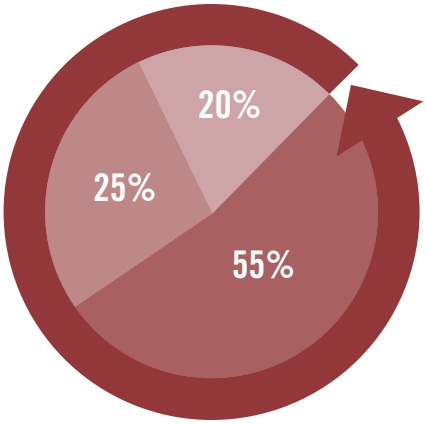
CERES ROADMAP EXPECTATION:

WATER MANAGEMENT

Companies will assess water-related impacts and risks and will set targets to improve water use and wastewater discharge, with priority given to operations in water-stressed regions

Key Finding

Assessing Water Risk



55% ***Disclose some level of water-related risk***

25% ***Disclose more comprehensive assessments that identify specific water-related risks, such as geographic-specific exposure,***

20% ***Disclose no water-related risks***

For most companies, water is a key requirement for doing business. Agricultural irrigation accounts for approximately 70 percent of all global freshwater use[15] and the U.S. electric power industry alone requires an estimated 136 billion gallons of water per day for generating and then cooling the steam that drives electric turbines.[16] Population growth, rapid industrialization in the developing world and the impacts of climate change are placing this critical resource under increasing pressure in terms of both availability and quality. These trends are creating unprecedented challenges for water-reliant companies, especially those with operations and supply chains in vulnerable regions.

Our analysis focused on four sectors that are especially water-sensitive and water-intensive—**Food & Beverage, Footwear & Apparel, Oil & Gas Producers** and **Utilities**. Of the 105 companies assessed, 28 percent (30 companies) are in Tiers 1 and 2 for efforts to track water use, disclose water accounting metrics, assess water risk exposure and implement programs and targets for improving water management. The majority of top performers are Food & Beverage firms, with 62 percent of companies in the sector (16 of 26 companies) included in Tiers 1 and 2. Water management remains, however, a key area where improvement is needed for both the Footwear & Apparel and Oil & Gas Producing sectors, which together represent 32 of the 53 companies falling in Tier 4.

A strong water management strategy begins with a comprehensive audit to identify water withdrawal, discharges and recycling/reuse across all operations. Among Food & Beverage companies, roughly three-quarters are reporting on at least one of the three metrics listed above; in 2010, approximately 60 percent of companies in the Food & Beverage sector responded to the first annual water disclosure survey by the Carbon Disclosure Project. This relatively high response rate shows that companies recognize the strategic nature of water resources to their social license to operate, business continuity and operating costs.

For some food and beverage companies, community concerns about the water impacts of their operations have been a significant driver for action. In the early 2000s, for instance, *The Coca-Cola Company* saw its social license to operate in India threatened due to concerns that its local bottlers were depleting and polluting drinking water. These concerns drew significant media attention and a spotlight on the company's water management practices, which have since prompted a significant commitment by the company to water stewardship. *The Coca-Cola Company* is now included in Tier 1 for this expectation and has developed ambitious water stewardship goals, such as improving water efficiency by 20 percent by 2012; returning all water used in manufacturing processes to the environment at a level that supports aquatic life by the end of 2012; and replenishing all of the water used in its beverages by 2020. These goals are encouraging, and many will be watching closely to see if they are met.

15 World Water Assessment Programme (WWAP). "Statistics: Graphs & Maps." UNwater.org. Retrieved from http://www.unwater.org/statistics_use.html on April 16, 2012.

16 Barton, Brooke. *Murky Waters? Corporate Reporting on Water Risk: A Benchmarking Study of 100 Companies.* Ceres. February 2010. Retrieved from http://www.ceres.org/resources/reports/corporate-reporting-on-water-risk-2010/view.

Of the 105 companies evaluated for this expectation, more than 80 percent (88 companies) disclose some level of water risk exposure. However, only 25 percent have undertaken assessments to identify specific water-related risks, such as geographic-specific exposure, or cite use of internal or recognized third-party water risk evaluation tools (*i.e.* the World Business Council for Sustainable Development [WBCSD] Water Tool). Just over 40 percent of Food and Beverage companies (11) conduct more in depth assessments of water-related risks, while only 25 percent (nine) of Utility, 18 percent (two) of Footwear & Apparel, and 15 percent (five) of Oil and Gas companies have invested a comparable level of risk assessment and disclosure.

Most Electric Utility companies (75 percent) fall into Tiers 3 and 4 for water management. This is especially concerning given the water needs of nuclear and fossil fuel power plants. Among the few standouts is Arizona-based *Pinnacle West*, which uses recycled urban wastewater to cool the reactors at its Palo Verde nuclear generating station. The company estimates it is reusing about 20 billion gallons of wastewater each year, thereby preserving enough potable water for approximately 75,000 homes.[17]

Among Footwear & Apparel companies, more than 80 percent (9 of 11 companies) are included in Tier 4 for water management. *Nike*, however, is working to not only improve the water management practices of its suppliers but is also looking to its product design and manufacturing processes to minimize water impacts. In early 2012 the company announced a partnership with Netherlands-based, DyeCoo Textile Systems, to implement a water-free fabric dyeing process that uses recycled carbon dioxide to color athletic fabrics. This new process is expected to eliminate the need for water and energy used in conventional textile dyeing. Traditional dyeing techniques can use up to 40 gallons of water to dye just two pounds of textile materials. With projections of 39 million tons of polyester to be dyed annually tby 2015, the potential water and energy savings this technology could enable is significant.[18]

CASE STUDY

A RESOURCE FOR 21ST CENTURY WATER MANAGEMENT: THE CERES AQUA GAUGE

The Ceres Aqua Gauge™ is a free, first-of-its-kind tool and methodology that enables companies and investors to assess enterprise-wide management of water risks and opportunities. Reflecting the experience of leading companies, the Aqua Gauge provides a comprehensive roadmap for developing robust, 21st century water strategies. The tool, which is backed by investors managing over $2 trillion in assets, provides a benchmark for leading practice and enables companies and investors to assess, score and compare water management performance. The tool and associated report provide:

- An Excel-based workbook that produces a scorecard of company performance;
- Detailed definitions of leading practice across a range of water management areas—from risk assessment and measurement to governance, business planning and product development; and
- Case studies and detailed company examples

The Aqua Gauge was developed by Ceres, WBSCD, Irbaris and the IRRC Institute through extensive engagement with more than 50 investors, companies and NGOs. Download the Aqua Gauge at www.ceres.org/aquagauge.

17 Barton, Brooke. *Murky Waters? Corporate Reporting on Water Risk: A Benchmarking Study of 100 Companies.* Ceres. February 2010. Retrieved from http://www.ceres.org/resources/reports/corporate-reporting-on-water-risk-2010/view.

18 "Nike, Inc. Announces Strategic Partnership to Scale Waterless Dyeing Technology." Nike, Inc. 7 February 2012. Retrieved from http://nikeinc.com/news/nike-inc-announces-strategic-partnership-to-scale-waterless-dyeing-technology on April 16, 2012.

CERES ROADMAP EXPECTATION:

HUMAN RIGHTS

Companies will regularly assess key risks related to human rights throughout their entire operations, and will employ management systems that are aligned with internal policies and support the implementation of universal standards.

Key Finding

Thirteen percent of the 600 companies (80) are included in Tier 1 and 2 for human rights management. The top-performing sector was Technology Hardware with 41 percent (11 of 27 companies) in Tiers 1 and 2. Only 19 percent of Oil & Gas Producers (6 of 32 companies) were included in the top two tiers, a disappointment given the sector's presence in many sensitive global regions.

At a minimum, all companies, regardless of industry, should implement formal policies addressing human rights, freedom of association, the elimination of discrimination, and working conditions. These policies should be clearly communicated to all relevant stakeholders and made accessible in local languages. Those impacted should also have access to confidential third-party grievance mechanisms. These initiatives should be integrated systematically across the enterprise, including contractors and suppliers.

For this expectation, all 600 companies were assessed and in-depth analysis was performed for companies in the nine priority sectors. Only 13 percent (80) of the 600 companies are included in the top 2 tiers for this expectation. The top-performing sector was Technology Hardware, with 41 percent (11 of 27 companies) included in Tiers 1 and 2. Stakeholder expectations for companies within this sector, however, continue to rise. A provision in the Dodd-Frank Act, for example, now requires all U.S. public companies using any of the four "conflict" minerals (tin, tantalum, tungsten and gold) to trace those minerals back to their source and disclose the use of any that originate in the Democratic Republic of Congo. Conflict minerals present a unique and complex challenge for companies in the Technology Hardware sector and the full impact of this new requirement on the improvement of human rights has yet to be seen.

Protection of human rights is also particularly relevant for oil and gas producers whose operations are located in many environmentally and socially sensitive global regions and impact vast networks of employees and local communities. These companies should undertake social impact assessments for all projects, including a review of impacts on indigenous communities. Yet, only 19 percent of companies (six of 32) in the Oil & Gas sector are included in the top 2 tiers for overall human rights management.

Community consultation initiatives are also an important component of a meaningful human rights program for the Oil & Gas sector. Such programs should include active dialogue with local stakeholders regarding the negative impacts their business activities may have on the community and should also assign managerial responsibility for addressing grievances throughout a project's life cycle. The three Oil & Gas companies included in Tier 1—*ExxonMobil, Hess* and *Occidental Petroleum*—have robust community consultation programs in place.

Hess Corporation's community consultation program includes benchmarks and objectives, and mechanisms to collect, record and address community grievances resulting from its operations. The company also has community development programs focusing on education and health worldwide. Hess specifically addresses indigenous people in its human rights policy. This level of engagement stands out in the industry as only a quarter of companies in the Oil & Gas sector (eight of 32) disclosed community development programs and even fewer (three companies) have policies on indigenous people and land rights.

For the majority of companies falling in the lowest 2 tiers, a stronger commitment to human rights can be instrumental in supporting a company's efforts to obtain and maintain its social license to operate.

CASE STUDY

THE RUGGIE MANDATE

In 2005 John Ruggie was appointed UN Secretary General's Special Representative on Human Rights and Transnational Corporations and Other Businesses. Following this appointment, a multi-stakeholder consultation process ensued resulting in the June 2011 release of the "Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework." This framework clarifies the role and responsibility of business for respecting the rights of not only their direct employees, but also their suppliers and the communities where they operate.

SUPPLY CHAIN

VISION: COMPANIES WILL ENSURE THAT SUPPLIERS MEET THE SAME ENVIRONMENTAL AND SOCIAL STANDARDS—INCLUDING DISCLOSURE OF GOALS AND PERFORMANCE METRICS—AS THE COMPANY HAS SET FOR ITS INTERNAL OPERATIONS.

From raw materials to manufacturing and packaging, a company's supply chain can have significant environmental and social impacts; and with varying levels of influence on suppliers, managing these impacts can be challenging. However, the extension of social and environmental standards, goals and programs across global supply chains can also help improve the bottom line. Addressing environmental and social concerns within supplier factories can improve worker morale, retention and productivity, which in turn can contribute to improvements in supply chain efficiency, reliability and resiliency.

In this section, company performance was evaluated for strength of supply chain policies and codes, alignment of sourcing practices to sustainability standards, supplier engagement and the measurement and disclosure of supplier performance. While the Supply Chain expectations were broadly evaluated for each of the 600 companies, four sectors with particularly complex supply chains—**Food & Beverage, Footwear & Apparel, Retail,** and **Technology Hardware**—received deeper scrutiny. Detailed sector analysis can be found at www.ceres.org/roadto2020.

CERES ROADMAP EXPECTATION:

POLICIES & CODES

Companies will set supply chain policies and codes aligned with overall social and environmental standards.

Key Finding

Forty-three percent of the 600 companies (259) have a supplier code in place.

A strong supply chain management system begins with policies and codes of conduct defining expectations for working conditions among contractors and suppliers. Such statements should address both environmental and social criteria, and incorporate environmental standards, pertinent environmental regulations, health and safety requirements, minimum living wages, working hours, freedom of association and collective bargaining, discrimination, child labor and forced labor. Such policies should also reference the Universal Declaration of Human Rights and/or the International Labor Organization (ILO) Conventions. Supply chain codes and standards should be accessible in local languages for all suppliers and contractors.

For this expectation, the evaluation was limited to assessing social policies and codes (environmental criteria for suppliers is assessed in the following expectation focused on sourcing practices). Forty-three percent of the 600 companies (259 companies) have a supplier code in place. Among the priority sectors focused on for this expectation—**Food & Beverage, Footwear & Apparel, Retail** and **Technology Hardware**—38 percent (37 of 97 companies) disclose supply chain codes of conduct that reference the ILO conventions.

It is not uncommon for companies to share common suppliers within their respective supply chains. This can result in a single supplier dedicating significant time and resources to comply with the competing requests of it business customers. In an effort to find solutions to this challenge, companies and key stakeholder organizations are collaborating to create common supplier requirements in sectors such as Apparel & Footwear, Technology Hardware and Electric Utilities. For example, the Sustainable Apparel Coalition (SAC) was founded in 2009 by a coalition of environmental organizations and companies including *Gap, H&M, Kohl's Department Stores, Nike, VF Corporation* and *Walmart*. The group is developing an industry-wide, open-sourced, supply chain index that measures water and energy use, GHG emissions, waste and the social labor practices of suppliers. This effort allows companies to present a common standard to suppliers and streamline the collection of sustainability performance data. The SAC plans to expand membership in 2012 to all footwear and apparel companies and eventually to other consumer industries.

Standardization of supplier expectations across a group of companies can effectively raise the bar for the entire sector. These initiatives can also provide companies that are just starting out with resources for addressing sustainability challenges within their own supply chains. With a commitment to collaboration and open sourcing, these industry initiatives can contribute to further uptake and implementation of supplier codes and policies.

CERES ROADMAP EXPECTATION:

ALIGN PROCUREMENT PRACTICES

Companies will address sustainability performance in procurement criteria and contracting.

Key Finding

Nearly half of the 600 companies have environmentally-focused procurement programs in place, with 113 companies referencing formal policies. Yet, only six percent (35 companies) set targets for supplier improvements and give preference to those suppliers demonstrating sustainable business practice.

Companies can use procurement and purchasing to implement strong sustainability strategies across their supply chains. As with supplier codes, procurement policies should be aligned with a company's corporate sustainability objectives and standards. The managers handling procurement should also be trained to assess the sustainability performance of vendors. The indicator used to assess this expectation evaluates companies for formal policies and programs related to green procurement. Though a somewhat narrow assessment of the expectation, it does provide some interesting insights.

For this expectation, all 600 companies were evaluated. The companies included in Tiers 1 and 2, representing nearly 20 percent (113) of the 600 companies, have formal environmental procurement programs and policies in place, yet only six percent of companies (35) are in Tier 1 and have policies that require suppliers to adhere to environmental standards set by the company and give preference to suppliers with stronger environmental performance. Companies within the Footwear & Apparel and Food & Beverage sectors have significant opportunities to improve the sustainability of procurement decision-making; only three (of 11) Footwear & Apparel and three (of 26) Food & Beverage companies cite environmental procurement policies that meet the expectations described above for companies in Tiers 1 and 2.

Walmart is among those companies considering environmental criteria in purchasing decisions with its procurement policy calling for the elimination of 20 million metric tons of GHG emissions from its global supply chain by the end of 2015. Walmart is working with suppliers across more than 20 product categories to identify GHG reduction opportunities and launch new packaging projects. By the end of 2012, Walmart will require all of its direct import suppliers to source 95 percent of their production from factories that receive one of Walmart's two highest ratings in audits for environmental and social practices. The question is whether these policies will result in on the ground performance improvements in Walmart's vast supply chain of more than 100,000 suppliers.

Despite these aggressive targets, the company continues to be implicated in controversies related to violations of working conditions and labor rights in its supply chain. Questions remain about Walmart's purchasing practices, which focus on lowering prices and aggressive production timelines, whether they exacerbate poor working conditions among suppliers and if the company's auditing process is able to adequately capture violations. Walmart does disclose its scorecard addressing the outcomes of the audit programs, however it is difficult to assess the specific details upon which the audit ratings are based. There are concerns that the company is focused on environmental impacts and that key social impacts are not receiving needed attention. At the same time, however, Walmart has committed to providing suppliers with necessary training. This is an important commitment; without the relevant education and resources for implementing these changes, suppliers often believe they are left to choose between meeting environmental sustainability goals or making a profit.

Starbuck's coffee procurement program is another noteworthy example of company action. Through Starbucks' Coffee and Farmer Equity (C.A.F.E.) Practices, developed in partnership with Conservation International, the company is working to ensure that its coffee suppliers are meeting clear economic, social and environmental standards. Starbucks has set a target that by 2015 all of its coffee will be third-party verified or certified through either the C.A.F.E. Practices, Fairtrade or another externally audited system. In 2011, 86 percent of the company's coffee met these standards.

A growing number of companies are also coupling procurement policies with commitments to improve sourcing practices for environmentally sensitive resources. One such example is the harvesting of palm oil—a product used in products ranging from chocolate bars to dish soap—which has been associated with significant loss of rainforests, as well as other related environmental impacts including decreased biodiversity and the contamination of ground water and soil. In response to these ecological impacts, *General Mills* has committed to source 100% of its palm oil from responsible and sustainable sources by 2015.

In the Technology Hardware sector, 55 percent of companies (15 of 27) are included in Tiers 1 and 2. Five companies—*Apple, Hewlett-Packard, Xerox, Motorola Mobility* and *Western Digital*—lead this sector with policies in place requiring suppliers adhere to environmental standards and also giving preference to suppliers with stronger environmental performance.

Electronic Industry Citizenship Council (EICC) and the Global e-Sustainability Initiative (GeSI) member companies—including *Apple, Motorola Mobility, Sprint* and *Dell,* among others—are also developing multi-stakeholder approaches to sourcing materials. For example, in April 2012, EICC and GeSI announced a new program focused on creating solutions for companies striving to eliminate conflict minerals from their supply chains. The new program will provide incentives to smelters that are sourcing conflict-free minerals and make it easier for companies to identify preferred suppliers.

CERES ROADMAP EXPECTATION:

ENGAGING SUPPLIERS

Companies will ensure that at least 75% of the company's Tier 1 and Tier 2 suppliers and 50% of Tier 3 suppliers meet the company's standards for sustainability performance.

Key Finding

Within the priority sectors focused upon for this expectation—Food & Beverage, Footwear & Apparel, Retailing and Technology Hardware—nearly 50 percent of companies (48 out of 97) have supply chain monitoring systems in place.

Integrating sustainability across entire supply chains requires not only polices and standards, but also ongoing monitoring, auditing and capacity-building. Companies that pursue these steps are better positioned to improve their overall sustainability performance and strengthen their long-term supplier relationships.

All 600 companies were evaluated for this expectation, and additional analysis was focused on those sectors with clear exposure to supply chain risk—**Food & Beverage, Footwear & Apparel, Retail** and **Technology Hardware**. The indicators for this expectation were used to assess company efforts to engage suppliers on both environmental and social sustainability issues and specifically examined, supply chain monitoring systems, programs and targets to improve the environmental performance of suppliers and the use of external social supplier certifications.

A key first step for companies addressing sustainability issues within the supply chain is to ensure that supplier-monitoring programs, which should be ongoing and consistent across the supply chain, have mechanisms for handling non-compliance and supporting remediation and capacity building. More than 70 percent of the 600 companies evaluated fall in Tier 4 for overall supplier engagement efforts. Yet within the priority sectors focused upon for this expectation—**Food & Beverage, Footwear & Apparel, Retail** and **Technology Hardware**—nearly 50 percent of companies (48 out of 97) have supply chain monitoring systems in place. Companies within the Food & Beverage sector dominate, with nearly 40% of companies in the sector (10 out of 26) included in Tier 1.

Companies such as *Gap* are also seeking external certification of suppliers against rigorous standards, such as SA 8000—a third-party certification for supplier labor practices. Others are pursuing industry-specific certification schemes. For example, *Hasbro's* facilities are certified by the International Council of Toy Industries (ICTI), which aims to ensure a fair, safe and healthy work environment for those employed in toy manufacturing.

Of the 97 priority sector companies evaluated, only 16 have programs in place to improve the environmental performance of suppliers; and just three—*Hewlett-Packard, Walmart,* and *Xerox*—have established supplier performance targets. In its 2011 sustainability report, *Hewlett-Packard* disclosed its efforts to gather GHG emission data from more than 90% of its first-tier suppliers by spend. The company also reports that more than three-quarters of its suppliers (by spend) have set sustainability performance goals.

With the majority of companies evaluated falling in Tier 4 for this expectation, there are clear opportunities for increased supplier engagement from companies across sectors. To ensure that sustainability is integrated throughout global supply chains, companies must also find ways of accessing not only direct suppliers, but also those that are more removed from their direct influence. One key strategy is to demonstrate to suppliers the potential business benefits that sustainability programs can have—whether they be related to finding efficiencies within manufacturing processes or maintaining a healthy and respected workforce.

Beyond education, leading companies are also finding ways to create business benefits through supplier incentives. *Proctor & Gamble's* supplier environmental sustainability scorecard, created in concert with the company's Supplier Sustainability Board which comprises more than 20 supplier representatives from across P&G's global supply chain, is an example. Results of the mandatory scorecard factor into a supplier's overall rating and affect the suppliers' ability to do ongoing business with P&G. This provides a clear incentive for improved sustainability performance. P&G also uses the scorecard to position suppliers as innovators by asking them to submit ideas for sustainable innovation. In 2011, the scorecard generated new ideas from 38 percent of P&G suppliers that participated in the program.

CASE STUDY

HELPING SUPPLIERS TO PROCURE RENEWABLE ENERGY

For many companies, much of the carbon footprint is within the supply chain; on average 50 percent for most companies[19] and can be even higher for manufacturing and retail companies. Yet for many suppliers located in developing countries, procuring renewable energy is often not an option.

In September 2011, the United Nations launched the formation of a high-level collaboration with the private sector focused on clean energy. The program, "Sustainable Energy for All," recognizes that the inability to access clean energy sources will jeopardize global efforts to combat poverty and disease. The goal of the initiative is to achieve universal access to modern energy services by 2030. Partnering with suppliers and local governments to support the development of renewable energy is a key opportunity for companies to significantly reduce their environmental and social impact.

19 A.T. Kearney. *Carbon Disclosure Project Supply Chain Report 2011*. A.T. Kearney commissioned by: Carbon Disclosure Project. 2011. Retrieved at https://www.cdproject.net/CDPResults/CDP-2011-Supply-Chain-Report.pdf.

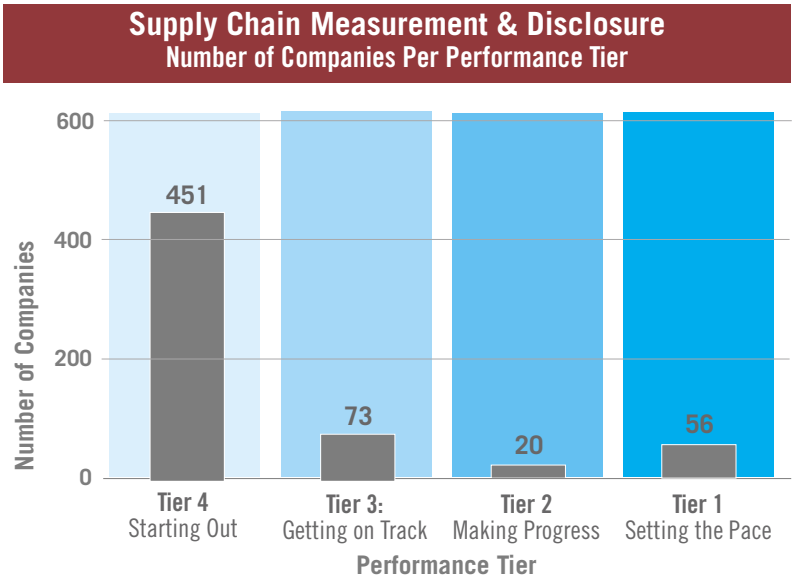
CERES ROADMAP EXPECTATION:

MEASUREMENT & DISCLOSURE

Companies will disclose a list of their Tier 1 and 2 suppliers and measure and disclose suppliers' sustainability performance.

Key Finding

Overall, only 25 percent of the 600 companies (149 companies) have some level of disclosure for supply chain monitoring and performance.



Supplier performance is influenced not only through management systems but also through relevant monitoring, auditing and disclosure. This should include third-party verification, not just internal auditing done by company employees. Ultimately, top-performing companies should assign the same degree of scrutiny towards suppliers' sustainability performance as their own direct operations.

For this expectation, all 600 companies were evaluated and additional analysis was focused on those sectors with clear exposure to supply chain risk—**Food & Beverage, Footwear & Apparel, Retail** and **Technology Hardware**. This expectation assessed transparency on the scope and frequency of audits, key audit findings, and disclosure of measures for addressing non-compliance, remediation programs and on-going training and engagement initiatives.

Overall, only 25 percent of the 600 companies (149 companies) have some level of disclosure for supply chain monitoring and performance. Not surprisingly, leading companies for this expectation were primarily represented among the four priority sectors focused on for this expectation. A third of these companies (33 out of 97) are included in Tiers 1 and 2.

The Technology Hardware sector has the strongest performance for supply chain transparency, with nearly 40 percent of companies included in Tiers 1 and 2. Putting to rest the fear that transparency in the supply chain translates to a competitive risk, Tier 1 and 2 companies in the Technology Hardware sector such as *Hewlett-Packard* and *Dell* disclose a list of their key suppliers.

In early 2012, *Apple* released a list of its suppliers, as well as a progress report on the company's auditing process and results. It also hired third-party auditor, the Fair Labor Association (FLA), to undertake a comprehensive assessment of working conditions at key supplier factories in China. These noteworthy actions follow significant allegations that Apple's heavy production demands have resulted in high stress levels, including suicides among their suppliers' employees. In March 2012, the FLA disclosed its findings and following their release a major supplier to Apple, mega technology manufacturer Foxconn Technology Group—known for its poor working conditions and high-stress production schedules—made commitments to limit worker hours and increase wages for its more than 1.2 million employees.[20]

20 Duhigg, Charles, and Steven Greenhouse. "Electronic Giant Vowing Reforms in China Plants." New York Times. 29 March 2012. Retrieved from http://www.nytimes.com/2012/03/30/business/apple-supplier-in-china-pledges-changes-in-working-conditions.html?pagewanted=all.

The disclosure of detailed supply chain data allows stakeholders to assess a company's sustainability performance and, for investors, to more accurately predict the impact of potential social and environmental disruptions. *Nike's* sustainability website features an interactive supply chain map highlighting all countries where the company sources goods and services and provides an individual country and factory breakdown of the types of products sourced, the number of factories and workers, the percentage of contract, migrant, and female workers, the average age of workers, and the country's contribution to quarterly sales.

Intel's regular internal supplier audits are done in concert with external, third-party audits, and cover each of the criteria in the Electronics Industry Citizenship Coalition (EICC) code. Based in part on the data collected, the company does supplier risk assessments that classify suppliers as low, medium or high risk.

The company's Supplier Continuous Quality Improvement (SCQI) Program includes supplier training, assessments and continuous improvement plans.

In response to investor requests for more transparency within the supply chain, a small number of companies are also beginning to ask suppliers to produce their *own* sustainability reports. In 2011, *Microsoft* announced that it was requiring a selection of its suppliers to release their own reports on adherence to the requirements of Microsoft's Vendor Code of Conduct. Microsoft suppliers have experienced labor and environmental problems in the past, a growing concern for investors and other stakeholders. This particular commitment by Microsoft was spurred by a shareholder resolution on behalf of New York City Public Pension Funds, and beginning in 2013, the company will ask a dozen of its suppliers to file GRI-compliant sustainability reports.

CASE STUDY

THE CALIFORNIA TRANSPARENCY IN SUPPLY CHAINS ACT

Originally passed in 2010, the Transparency in Supply Chains Act aims to combat human trafficking and forced labor by requiring companies to publicly report on their efforts to ensure their direct supply chains are free from slavery. The bill, which went into full effect in January 2012, applies to all retailers and manufacturers doing business in California that have global gross receipts exceeding $100 million. Similar legislation has been introduced at the federal level. By requiring companies to scrutinize—and disclose actions being taken to prevent—human rights abuses, the law allows investors, consumers and other interested stakeholders to make better and more informed decisions. The reach of this Act is considerable—an estimated 3,200 global companies will be affected.[21]

This Act has increased awareness across a broad range of stakeholders, including investors, about the importance of company accountability and transparency on the social impacts of their suppliers. A group of 32 investors expressed support for the legislation and also released investor guidance for companies seeking to comply with the Act.

21 Verite. Compliance is Not Enough: Best Practices in Responding to The California Transparency in Supply Chains Act. Verite. November 2011. Retrieved from http://www.verite.org/sites/default/files/VTE_WhitePaper_California_Bill657FINAL5.pdf.

TRANSPORTATION & LOGISTICS

VISION: COMPANIES WILL SYSTEMATICALLY MINIMIZE THEIR SUSTAINABILITY IMPACT BY ENHANCING THE RESILIENCY OF THEIR LOGISTICS. COMPANIES WILL PRIORITIZE LOW IMPACT TRANSPORTATION SYSTEMS AND MODES, AND ADDRESS BUSINESS TRAVEL AND COMMUTING.

With U.S. emissions related to transportation hovering around 30 percent[22], boosting efficiencies across transportation and logistics is a critical opportunity for meeting emission reduction targets, but also for reducing operating costs. Whether a company maintains its own vehicle fleet or outsources logistics to a third-party, there should be management systems in place to monitor the environmental performance of the entire transportation network.

In this section, five sectors with transportation and logistics systems were evaluated: **Automotive & Transportation, Food & Beverage, Footwear & Apparel, Retail** and **Technology Hardware**. Due to data limitations, two of the *Roadmap* expectations for transportation have been combined into one focused on both transportation management and modes. The indicators used for the expectation in this section evaluate owned logistics and fleets, as well as outsourced logistics. Additional analysis of these sectors, representing 113 companies, can be found at www.ceres.org/roadto2020.

22 U.S. Environmental Protection Agency. "Trends in Greenhouse Gas Emissions." EPA.gov. 2011. Retrieved from http://epa.gov/climatechange/emissions/downloads12/2.%20Trends.pdf on April 16, 2012.

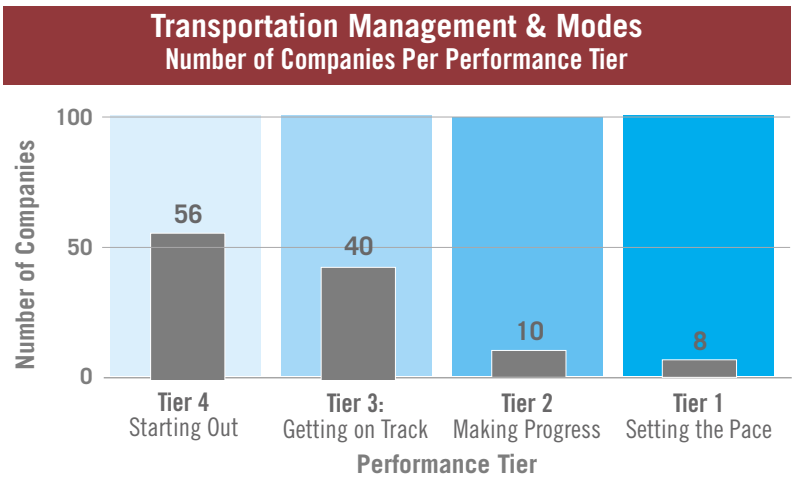
CERES ROADMAP EXPECTATION:

TRANSPORTATION MANAGEMENT & MODES

Companies will develop transportation criteria that incorporate distance requirements from site to market and establish decentralized and localized distribution networks. Companies will review logistics to prioritize low-impact transportation modes.

Key Finding

Just over 50 percent of the 114 companies evaluated are taking steps to lower the environmental impact of their owned and/or outsourced logistics, but only the 18 companies included in Tiers 1 and 2 have formal programs that include specific reduction targets.



Creating a sustainable transportation network requires that a company focus on the architecture of the network, including tracking and minimizing distances travelled, adopting low-carbon transportation modes and fuel sources and setting long-term, quantitative reduction targets. Of the 114 companies assessed for this expectation, in the **Automotive & Transportation, Food & Beverage, Footwear & Apparel, Retail** and **Technology Hardware** sectors, just over 50 percent are taking steps to reduce the environmental impact of their own fleet and/or outsourced logistics. Of those companies, 16 percent (18 companies) are included in Tiers 1 and 2 indicating that they have implemented formal programs that include reduction targets. Tier 1 companies for this expectation, including *PepsiCo, Kroger, UPS and FedEx*, are setting and meeting specific targets that are lowering both their energy costs and environmental footprints.

Food & Beverage and Retail companies represent more than 60 percent of those included in Tiers 1 and 2. *PepsiCo* has set a corporate-wide goal of reducing its fuel consumption 25 percent per unit of production by 2015 (from 2006 levels). The company's Frito-Lay division is rolling out fully electric delivery trucks while PepsiCo UK & Ireland have started using low-emission vehicles with a goal of reducing nitrogen oxide emissions 60 percent by 2018. A standout among the retailers, *Kroger* aims to achieve a 25 percent improvement in its fleet efficiency by 2014 in part by increasing "cube efficiency," a measurement of how efficiently the company utilizes truckload capacity. The company is also partnering with the U.S. Environmental Protection Agency to ensure its new trailers comply with the SmartWay program carbon reduction strategies.

Transportation companies' emissions impacts are primarily through the use of their own fleets of vehicles, planes, ships and trains or access to such modes of transportation for their business. As the suppliers of transportation services to a wide range of companies, they are increasingly being asked by their customers to provide data on their GHG emissions and other sustainability impacts. *UPS* leads the transportation companies with a commitment to reduce its airline emissions a further 20 percent per ton-mile by 2020 (from 2005 levels), building upon a reduction of 10 percent since 2005. On the ground, the UPS fleet is now 20 percent alternative-fuel vehicles and the company utilizes telematics to improve vehicle, route and driver efficiency. *FedEx's* fleet of electric and hybrid vehicles is also now at 20 percent and the company has established a goal of improving fuel efficiency of its *FedEx* express vehicles by 20 percent by 2020.

More than 25 percent of the 114 companies evaluated are undertaking activities to improve the environmental performance of third party providers. *Target*, for example, has taken measures to ensure that its contracted logistics providers do not travel empty from stores to distribution centers. By 2016, Target aims to improve the efficiency of its inbound logistics by 15 percent and outbound logistics by 20 percent (compared to a 2008 baseline).

PRODUCTS & SERVICES

VISION: COMPANIES WILL DESIGN AND DELIVER PRODUCTS AND SERVICES THAT ARE ALIGNED WITH SUSTAINABILITY GOALS BY INNOVATING BUSINESS MODELS, ALLOCATING R&D SPENDING, DESIGNING FOR SUSTAINABILITY, COMMUNICATING THE IMPACTS OF PRODUCTS AND SERVICES, REVIEWING MARKETING PRACTICES AND ADVANCING STRATEGIC COLLABORATIONS.

Increasing momentum to innovate products and services with reduced environmental and social impacts is transforming business models. This advancement is being driven in part by growing consumer demand for sustainable product offerings, but also by the increasing societal need for paradigm-changing products and solutions to key sustainability challenges.

For this expectation all 600 U.S. companies were assessed on at least one indicator measuring performance on sustainability design. Some additional sector-specific indicators were used to analyze the 251 companies within the nine priority sectors—**Autos & Transportation, Financial Services, Food & Beverage, Footwear & Apparel, Oil & Gas Producers, Retail, Technology Hardware, Technology Software & Services** and **Utilities**.

Each industry group was evaluated based on a unique set of sector-specific metrics. For example, Food & Beverage companies and some Retail companies were evaluated on programs and targets to increase sustainable food products, while Financial Services companies were evaluated on sustainability-related financial service offerings, such as "green" financing or mortgages. Footwear & Apparel and Technology Hardware firms, which generate significant product end-of-life waste, were evaluated on their sustainable design initiatives and related R&D efforts. More details on specific indicators used, and additional analysis of the nine priority sectors, can be found in the web report at www.ceres.org/roadto2020.

CASE STUDY

AUTO SECTOR PRODUCT IMPROVEMENTS

The U.S. Corporate Average Fuel Economy (CAFE) and GHG vehicle emissions standards are continuing to drive product innovation for auto companies and their suppliers. Citi Investment Research in collaboration with Ceres and other experts has been analyzing the economic impacts of the development of fuel economy/GHG emission standards on the industry for several years. The latest analysis examines the impacts the second phase of the program might have on the industry in 2020. The Administration has proposed standards for 2017-2025, which would require a fleet average of 49.6 miles per gallon and 163 grams of CO_2 per mile by 2025 (equivalent to 54.5 mpg). The standards would reduce the amount of GHG emissions by half for 2025 vehicles (compared to 2010 vehicles), and would save approximately 4 billion barrels of oil.

The new standards could largely be met by using existing technologies that improve the performance of cars powered by traditional internal combustion engines. Some of these technology improvements include turbocharged direct injection, advanced transmissions, electric power steering, low-rolling-resistance tires, turbo charging and variable valve lift. Many of these are available now and are cost-effective.

Overall, the Citi report found that automakers would likely see increased sales and profits (4 and 5 percent increases respectively) under the proposed standards in 2020. Suppliers of key fuel saving technologies would also stand to benefit. The report found that the technology required to meet the 2020 standard would be cost-effective for consumers when gas costs $1.50/gallon. This is a clear example of the business case for developing more sustainable products. Producing more fuel-efficient cars benefits not only consumers and the environment, but also the auto industry's bottom line.

CERES ROADMAP EXPECTATION:

DESIGN FOR SUSTAINABILITY

Companies will approach all product development and product management decisions with full consideration of the social and environmental impacts of the product throughout its life cycle.

Designing a product or service for sustainability can mean vastly different things from company to company. For some, it means a shift in sourcing practices to more sustainable raw materials or the use of a life cycle assessment to examine the social and environmental impacts of an existing product from cradle to grave. For others, it may translate to the total redesign of a product or the introduction of a service that helps to shift consumer behavior. Based on the sector-specific nature of this expectation, the indicators were correlated to the relevant sector(s). Data was somewhat limited *(see the methodology for more detail on the indicators used)*. Therefore, we are only able to give a general sense of the direction that companies are heading in terms of design for sustainability. Of the 600 companies, nearly 50 percent (280) are leveraging opportunities to offer some type of sustainable product or service.

For Food & Beverage companies, product sustainability partly requires an examination of how products are grown. While more than 60 percent of companies (16 of 26) in the Food & Beverage sector are offering customers organic and fair trade products, for most companies these options continue to be a small percentage of product offerings. Companies should disclose the percentage of revenues attributed to sustainable products so that investors and other stakeholders can better understand the contribution these products make to the overall success of the business.

A growing number of Retail companies are taking strides to put sustainable products on their shelves. *Whole Foods* is leading an increasing number of grocers offering consumers more sustainable food choices. Tier 2 companies, *Kroger* and *Safeway*, are strengthening their commitment with targets for increased sourcing of sustainable seafood certified by the Marine Stewardship Council (MSC) and other similar certifications. *Safeway* is also implementing specialized training for retail employees to help customers identify more sustainable options.

For manufacturing companies across sectors, understanding the full impacts of a product over its life cycle—from extraction of materials to manufacturing to use and disposal—provides an understanding of what design or production changes may render the greatest sustainability improvements. Although there are industry initiatives emerging, such as the Sustainable Apparel Coalition and the Eco Index, among the Footwear & Apparel companies there is significant room for improvement with more than 80 percent of companies (9 out of 11) demonstrating no formal link between sustainability and product design.

By contrast, 74 percent (20 of 27 companies) of the Technology Hardware companies have policies or guidelines to ensure that environmental issues are considered at the R&D stage of product development. This is mainly in response to European chemical legislation and electronic-waste directives, which have made sustainable design the industry norm and continue to drive design standards.

Beyond sustainable design criteria, companies in the Technology Hardware and Software sectors are also increasing efforts to bring innovative product solutions to market. These companies are finding ways to modify existing products or develop new technologies that are helping other businesses and consumers to save energy, water and money. *Hewlett-Packard* and *Cisco's* telepresence technologies are allowing businesses to radically reduce business travel, while maintaining the experience of a face-to-face meeting. This not only offers customers more resource efficient options, but actually changes the way that many companies do business. *Cisco* has rolled these products out across its own business and in 2011 saw a 40 percent drop in air travel emissions compared to 2007.

Sustainable innovation is not limited to a manufactured product, but can also extend to services that shift the way businesses operate, as well as consumer behavior. Technology Software company *CA Technologies* provides business customers with solutions to measure, manage and ultimately reduce energy use, water, waste and GHG emissions across the enterprise. The company has employed its own ecoSoftware and has seen a 30 percent reduction in GHG emissions from 2008 to 2010.

Although all companies in the Financial Services sector are included in Tiers 3 or 4 for this expectation, the analysis shows that some are starting to experiment with products that can shift consumer purchasing. Examples include loans for home energy efficiency improvements and carbon offset credit cards. One example is *Bank of America's* Energy Credit Mortgage, which offers homebuyers a credit up to $1,000 toward closing costs for newly constructed properties that meet Energy Star® requirements. A significant opportunity exists for companies in this sector to educate consumers and build the market for these types of products and services.

CASE STUDY

DETOX ROADMAP

Chemicals used to make footwear and apparel products can have a significant impact on workers and the environment through their use in manufacturing and their ultimate release into the air or waterways. In response to a Greenpeace campaign, *Nike, Puma, H&M, Adidas* and others launched an effort in 2011 to achieve zero discharge of hazardous chemicals by 2020. The group issued a joint roadmap outlining its strategy, as well as a call for other companies to join them and for NGOs, academics, policy makers and issue experts to provide input to the process.

EMPLOYEES

VISION: COMPANIES WILL MAKE SUSTAINABILITY CONSIDERATIONS A CORE PART OF RECRUITMENT, COMPENSATION, AND TRAINING, AND WILL ENCOURAGE SUSTAINABLE LIFESTYLE CHOICES.

Employees can be an under-utilized resource in a company's development and implementation of sustainability programs and strategies. Employees should be aware of a company's sustainability position and goals and should be seen as partners and innovators, proactively nurtured for ideas and feedback. To encourage employee engagement, sustainability must become part of the company's culture, with a clear commitment embraced across the enterprise from the boardroom to the copy room and through the supply chain.

For this expectation all 600 companies were evaluated for employee sustainability training, support and engagement. Although the *Roadmap* has three specific expectations for employees, in this report we were only able to access data for one: training and support. Additional analysis of the nine priority sectors, can be found in the web report at www.ceres.org/roadto2020.

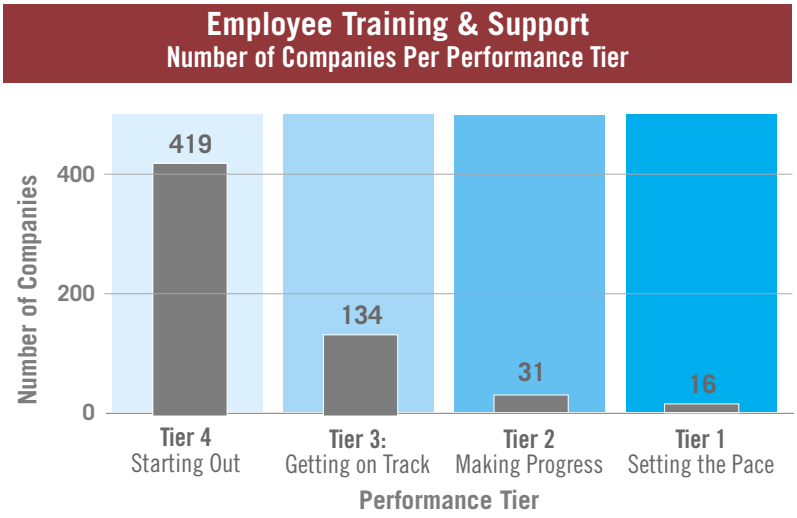
CERES ROADMAP EXPECTATION:

TRAINING AND SUPPORT

Companies will develop and implement formal training on key sustainability issues for all executives and employees, and facilitate coaching, mentoring and networks for sustainability knowledge sharing.

Key Finding

The eight percent of companies (47) are included in Tiers 1 and 2 for maintaining specific programs that integrate sustainability into the overall company culture, such as formal sustainability training for employees and mechanisms for the collaborative solicitation of feedback and ideas.



Robust employee engagement and buy-in can accelerate a sustainability strategy while improving morale, recruitment, retention and productivity. For this expectation we evaluated how companies integrated sustainability into company culture and assessed initiatives to engage and educate employees on relevant topics. Specific programs may include formal training, integration into orientation and professional development, strategic employee engagement and feedback mechanisms, internal employee communication, and the formation of employee-led committees, working groups and green teams.

Thirty percent of the 600 companies have some sustainability oriented employee engagement activities in place, with the eight percent (47) of companies included in Tiers 1 and 2 maintaining specific programs that integrate sustainability into the overall company culture, such as formal sustainability training for employees and mechanisms for the collaborative solicitation of feedback and ideas.

While many companies have internal newsletters or intranets that convey sustainability information, others go further by offering regular training and education programs, working groups and formal employee committees. *Wells Fargo* has 40 "Green Teams" across its U.S. operations and the company has extended its employee engagement programs to include retail employees. "Sustainability Agents" are locally designated to support the education of other employees on Wells Fargo's sustainability initiatives and to address related customer questions.

To encourage employees to embed citizenship into their daily actions, *The Walt Disney Company* hosts an annual two-day Environmental Summit for global employees, bringing together leaders from across the company to share leading practices for environmental projects, network and create opportunities for innovative thinking. *Campbell Soup* is pushing to achieve 100 percent employee engagement in CSR and sustainability issues by 2020. The company requires that every employee have a "CSR-oriented goal" in their annual performance objectives. Campbell measures progress annually and in 2010 the company had an employee engagement ratio of 23:1 (engaged to disengaged employees). This level of company-wide engagement encourages employees to take sustainability goals seriously, fostering innovation.

A company's sustainability agenda also influences recruitment. Some sectors—including Autos & Transportation, Oil & Gas and Utilities—are being challenged to adapt to a changing energy economy with an increasingly insufficient supply of skilled workers. Targeted recruitment programs that communicate a company's sustainability agenda can be very helpful in recruiting 'the best and the brightest,' including those with highly specialized skills in clean technology, sustainable design or environmental engineering. Over the past five years *Ford Motor Company* has doubled the number of employees working on its fuel saving technologies. The company now has more than 1000 engineers working on hybrid and electrification programs and announced that in 2012 it would be tripling production capacity of its hybrid, plug-in hybrid and electric vehicles in the U.S. compared with 2011.[23]

23 Szczesny, Joseph. "Ford hiring more engineers to focus on better fuel economy." The Oakland Press. 28 March 2012. Retrieved from http://www.theoaklandpress.com/articles/2012/03/28/news/local_news/doc4f7339250fefc960990154.txt?viewmode=fullstory on April 16, 2012.

CONCLUSION

TAKE ACTION

It has been two years since the release of the Roadmap and this report provides a sense of where we are now, highlighting what needs to be done to accelerate progress as we move towards 2020.

The findings of this report should inspire companies to examine their own progress and identify where they stand on the path to sustainability.

If they've taken steps towards sustainability, are their efforts translating into results?

If they are well on the road to sustainability, what else can they do to drive their sustainability leadership?

And if they are still at the starting line, what are they waiting for?

Investors can use the report findings to gain a deeper understanding of how companies are addressing environmental, social and governance risks and opportunities. The findings make it easy for investors to see where companies stand and examine where there is leadership and where there are opportunities for engagement.

Most importantly, The Road to 2020 reaffirms the compelling case for deeper, more comprehensive business action on sustainability. The time to get started is now.

We invite both companies and investors to explore the interactive data and online resources found in the web report at www.ceres.org/roadto2020.

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