

2013 six growing trends in corporate sustainability

An Ernst & Young survey in cooperation with
GreenBiz Group



GreenBiz
group

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Six growing trends in corporate sustainability

This report summarizes results based primarily on a survey of the GreenBiz Intelligence Panel, consisting of executives and thought leaders in the area of corporate environmental strategy and performance. Panel members participate in brief monthly surveys to provide their expertise and perspective on corporate initiatives, laws and regulations, and scientific advances that are shaping the green agenda.

Data were collected during fall 2012. The survey was conducted online, and an email link was sent to the panel's 3,630 members inviting them to participate anonymously in the survey. For the purposes of this report, we analyzed the results from 282 respondents who represented 17 sectors and are employed by companies with annual revenue greater than US\$1 billion. Approximately 85% of these respondents are based in the United States.

It is important to note that the quantitative data in the report may skew higher than if the panel was representative of a broader demographic – that is, executives and managers not necessarily focused on their company's environmental corporate sustainability efforts. However, the responding companies represent a broad diversity of corporate sustainability experience: those just beginning to engage in corporate sustainability as well as those that have been engaged for years.

The image shows a modern building with a large vertical garden wall on the left side. The garden is filled with various green plants, including ferns and leafy herbs. To the right of the garden is a wooden staircase with a metal handrail, leading up to a glass-enclosed upper level. The ground in front of the building is paved with grey concrete. The overall scene is bright and modern, emphasizing sustainable architecture.

Six **growing** trends

- 1: The “tone from the top” is key to heightened awareness and preparedness for sustainability risks.
- 2: Governments and multilateral institutions aren’t playing a key role in corporate sustainability agendas.
- 3: Sustainability concerns now include increased risk and proximity of natural resource shortages.
- 4: Corporate risk response is not well paired to the scale of sustainability challenges.
- 5: Integrated reporting is slow to take hold.
- 6: Inquiries from investors and shareholders are on the rise.

Executive summary

Our survey looked at how companies are responding to a wide range of internal and external forces related to environmental sustainability risks and how well companies are prepared to address them. Six trends emerged, which form the basis of this report.

The survey tells us that companies' response and approach to sustainability issues are influenced significantly by the "tone from the top" – that is, how and how much senior management are engaged in the conversation. As the sustainability conversation in some companies shifts – from eco-efficiency to risk reduction and mitigation of natural resource shortages, extreme weather events and supply-chain disruptions – sustainability is being seen as affecting a company's ability to compete.

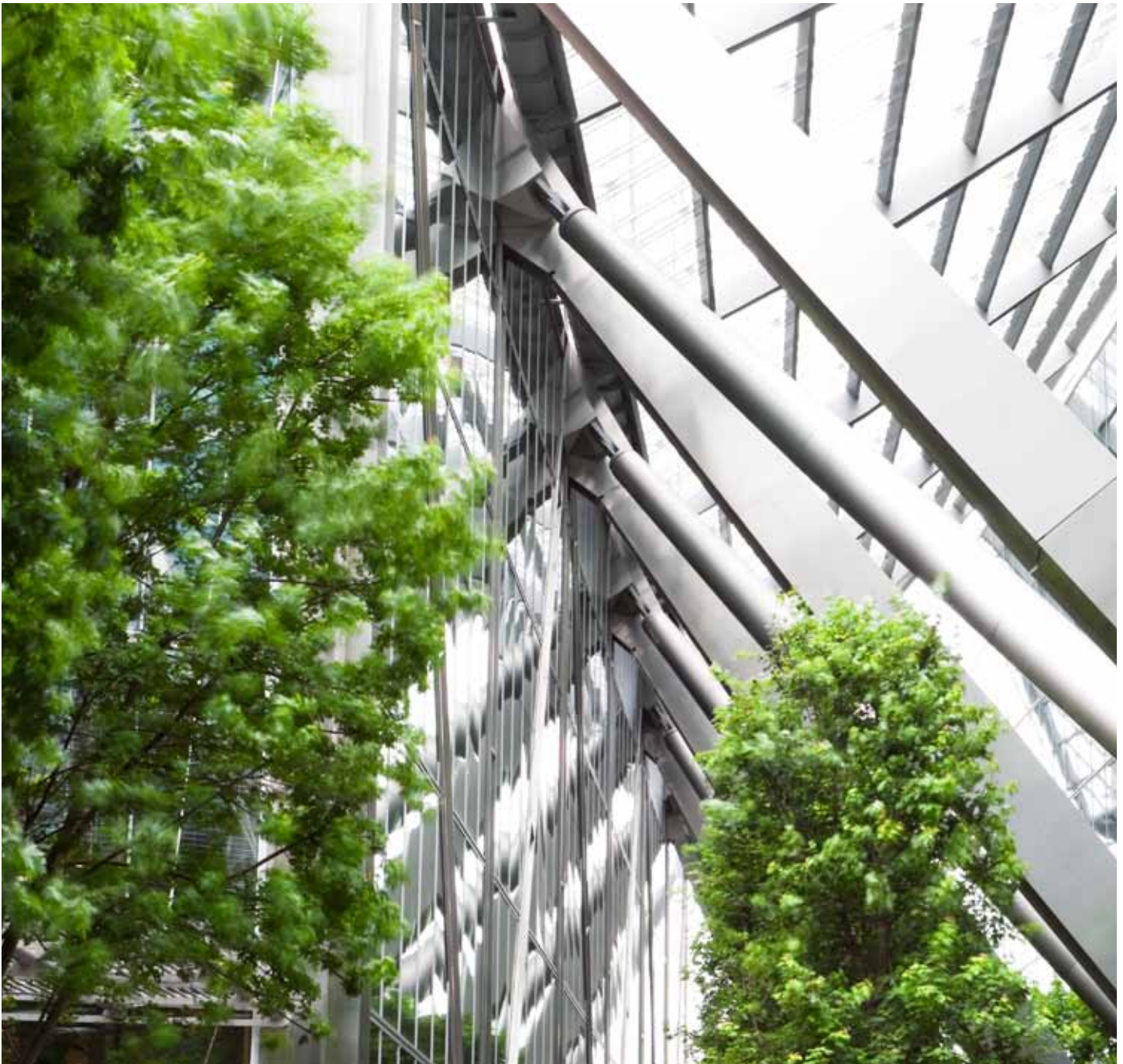
Some of these risks are exacerbated as the decreasing role of governments and multilateral organizations shrink in the sustainability arena. The result is a muddled policy environment, making it difficult for some companies to make long-range plans and investments. NGOs, stock exchanges and investor groups are stepping in to fill the void, often exerting higher leverage than governments to move companies and markets to provide transparency and disclosure on sustainability-related risks.

But corporate risk response appears to be inadequate to address the scope and scale of some of these challenges. For example, most companies have yet to run scenario analyses considering the availability of key inputs such as water or other raw materials. Such analyses are increasingly important given the growing understanding that such issues as food, energy and water are inextricably linked and must be looked at holistically.

Amid this dynamic environment, investors and stock exchanges are pressing companies ever harder to assess and disclose sustainability issues considered material, in part by asking companies to integrate financial and sustainability reporting. Companies, however, are slow to do so. Among the challenges is balancing demands for transparency with the legal risks of disclosing more information.

Introduction: sustainability's growing focus

This report examines six corporate sustainability trends, based on a survey conducted in late 2012 by GreenBiz Group and Ernst & Young of members of the GreenBiz Intelligence Panel, consisting of executives and thought leaders in the area of corporate environmental strategy and performance. For this report, we analyzed the results from 282 respondents in 17 industry sectors who are employed by companies generating revenue greater than US\$1 billion. Approximately 85% of these respondents are based in the United States.



A shifting landscape

Our survey takes place amid a shifting landscape for companies and corporate sustainability. The continued trend of extreme weather events around the globe – not to mention a documented 11,000-year warming trend – has brought new attention to climate change and its potential disruptions to business operations and supply chains. Water-related risks around the world are another stressor, leading companies in sectors like agriculture, food and beverage, manufacturing, oil and gas, and utilities to recognize the need for resource efficiency and scenario planning. Supplies of other commodities, including basic metals, are being roiled by political, economic and environmental factors.

The role of sustainability issues hasn't historically been front and center of business strategy, but these issues continuously linger in the background. Companies may not talk about climate change per se, but many are being buffeted by its effects. Similar issues including deforestation and shrinking biodiversity, are affecting the availability of agricultural products. As a result, companies are increasingly connecting the dots between risk management and corporate sustainability. That, in turn, is making sustainability issues more prominent on company agendas.

To what degree is sustainability embedded in your corporate strategy and governance?



55%

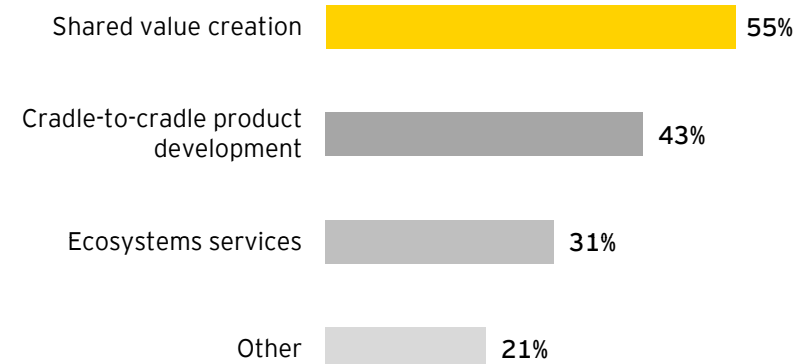
shared value creation
for creating future
financial advantage

Embedding sustainability

Against this background, corporate sustainability has become part of the fabric of a majority of large companies in our survey group. 63% make public environmental and social goals, and publicly report progress against those goals. At just over half – 50.6% – sustainability is included in strategic planning and capital budgeting, and 38% consider the environmental and social impacts of any major decision, such as an acquisition, development of a new facility, or major capital expenditures. But only a handful of companies are using scenario planning tools to address corporate sustainability risks.

Moreover, the conversation inside companies is getting increasingly more sophisticated. Terms like “ecosystems services,” “shared value creation” and “cradle-to-cradle products,” once relegated to academics or sustainability advocates, are now part of daily discourse. How those terms are used, and whether they are done so consistently within and among organizations, is another matter. But the mere fact that they are discussed at all signals progress and represents a fuller understanding and appreciation of sustainability’s growing importance inside companies.

Is your company evaluating or employing any of the following strategies for creating future financial advantage?



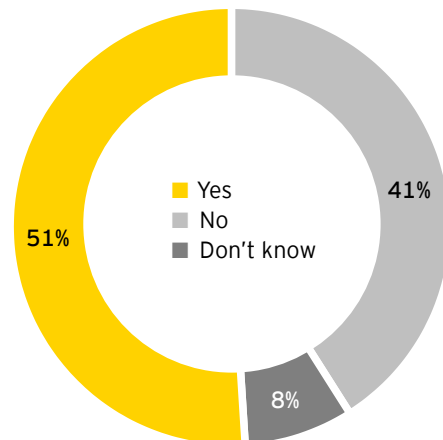


Driven from the top

It may not be surprising, then, to learn that CEOs engaged in sustainability are driving companies to address these issues. As we learned from our survey group, top-level engagement has a profound impact on how, and how much, corporate sustainability is viewed as a strategic risk-management issue as opposed to being seen simply as a means of “doing the right thing.”

But the C-suite is just one driver, albeit an important one. Customers – particularly business-to-business customers – are also pushing the agenda, pressing companies to change product and packaging design, as well as to increase disclosure of everything from product ingredients to working conditions of suppliers’ factories – and even those of suppliers’ suppliers. They join with the usual drivers – employees, investors, regulators, advocacy groups and communities – in pushing companies to integrate sustainability issues ever deeper into company operations.

Do you expect your company’s core business to be affected by natural resource shortages?



20%

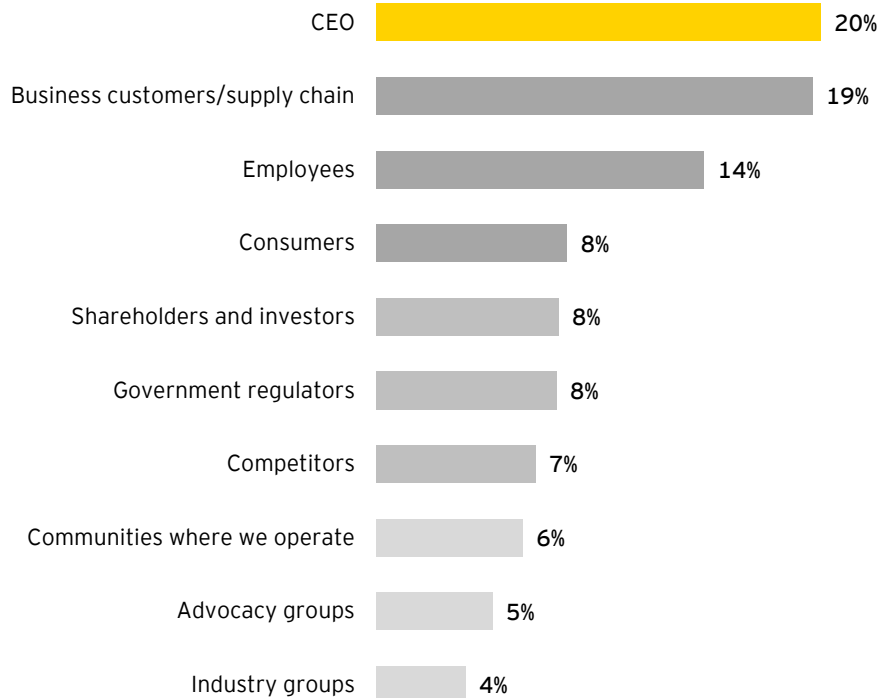
of CEOs drive their company's approach to sustainability

Shareholders speak up

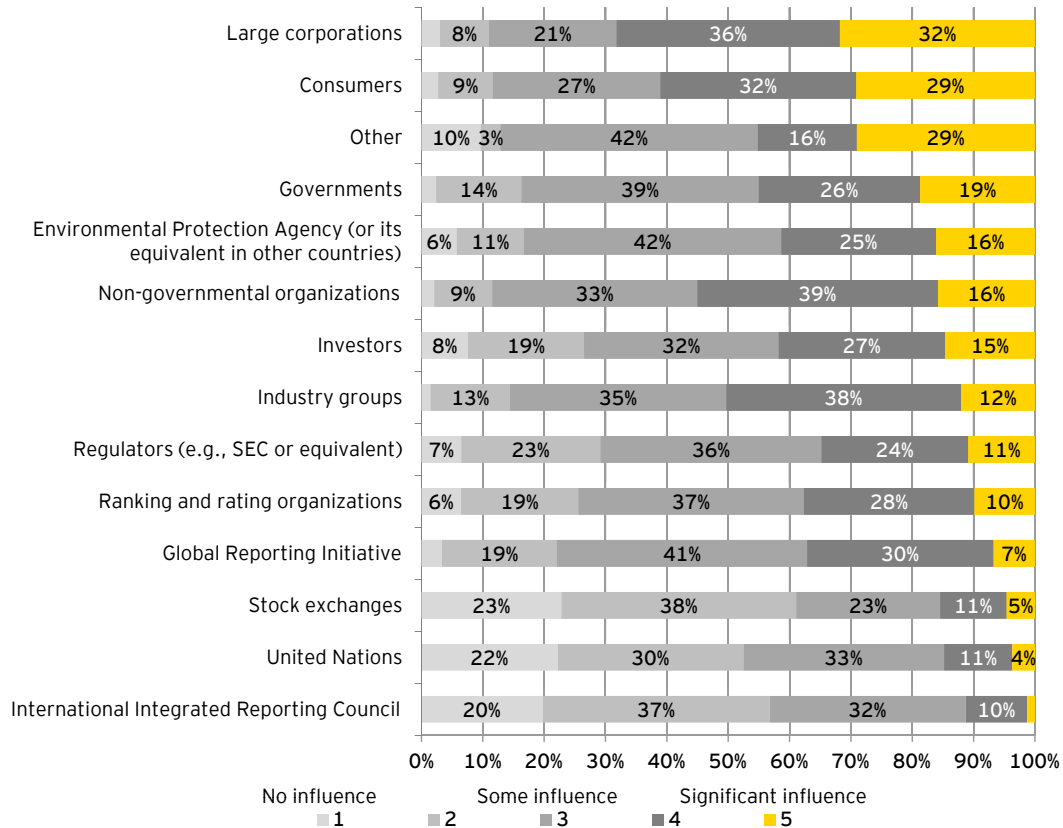
There's another group that's making their interests increasingly clear: shareholders. For most of the past quarter-century – the time span of the modern environmental movement – sustainability advocates have struggled to make the “business case” that being proactive on sustainability issues would strengthen the bottom line and, therefore, shareholders’ interests. While there has been a steady stream of research and data underscoring that hypothesis, it has not translated into increased attention to sustainability by investment analysts or other influencers of company value and share price.

That may be changing, driven by growing recognition of the business risks of inaction (or insufficient action) paid to sustainability issues and how these in turn can affect supply chains, business continuity, employee attraction and retention, reputation, even the right to operate. Even if such issues haven't yet hit the radar of stock analysts, they are recognized by a small but growing number of stock exchanges, which are beginning to levy requirements on listed companies to increase disclosure of sustainability risks and how companies are addressing them.

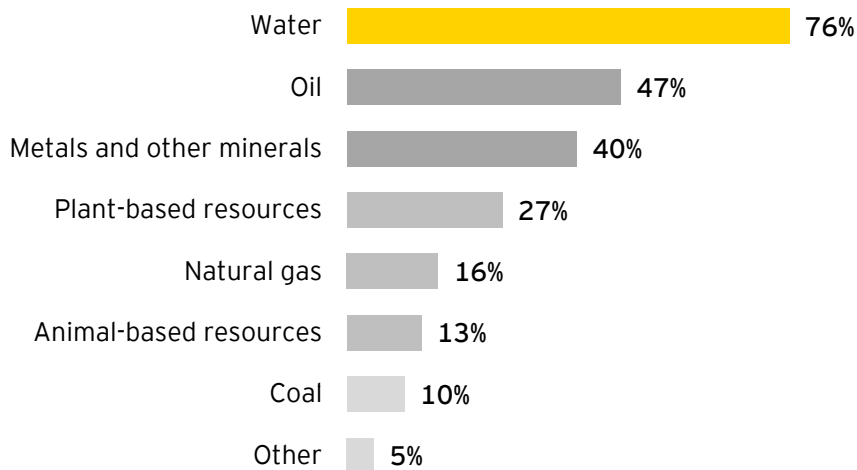
Which of the following most drives your company's approach to sustainability? (Please select the top 3):



Which groups have a positive impact on advancing sustainability on a global basis?



Which resources are most at risk?





TREND

1

The “tone from the top” is key to heightened awareness and preparedness for sustainability risks.

The evolution of corporate sustainability inside companies has shifted the conversation from the margins to the mainstream. The early conversations focused on regulatory compliance and then on “doing well by doing good” – aligning cost-saving measures with reputational benefits – and, more recently, with creating value by aligning sustainability with innovation.

Increasingly, the corporate sustainability conversation in a growing number of companies has shifted to another arena: risk reduction and mitigation. This reflects the realization that environmental, societal, and market shifts will increasingly roil everything from commodity prices to natural resource shortages to disease epidemics – all of which can affect business continuity, the right to operate and reputation.

Suffice it to say, these things are a long way from “doing well by doing good.” They go to the heart of a company’s ability to compete.

The complexity of corporate sustainability issues, especially when viewed through the lens of risk management, has led companies to understand that sustainability needs to be more tightly **integrated** throughout the organization: in finance, operations, procurement, facilities, human resources, supply chain, logistics, finance investor relations, marketing and communications, and more. The result has been that the conversation inside companies is more dispersed, even systemic, well beyond the scope of a single department or business function.

How, and how much, companies disclose their sustainability-related risks provides a good barometer of top management’s engagement in these issues. We asked our survey group to assess how much their company’s disclosure of sustainability-related risks contained in their 10-K filings or annual financial

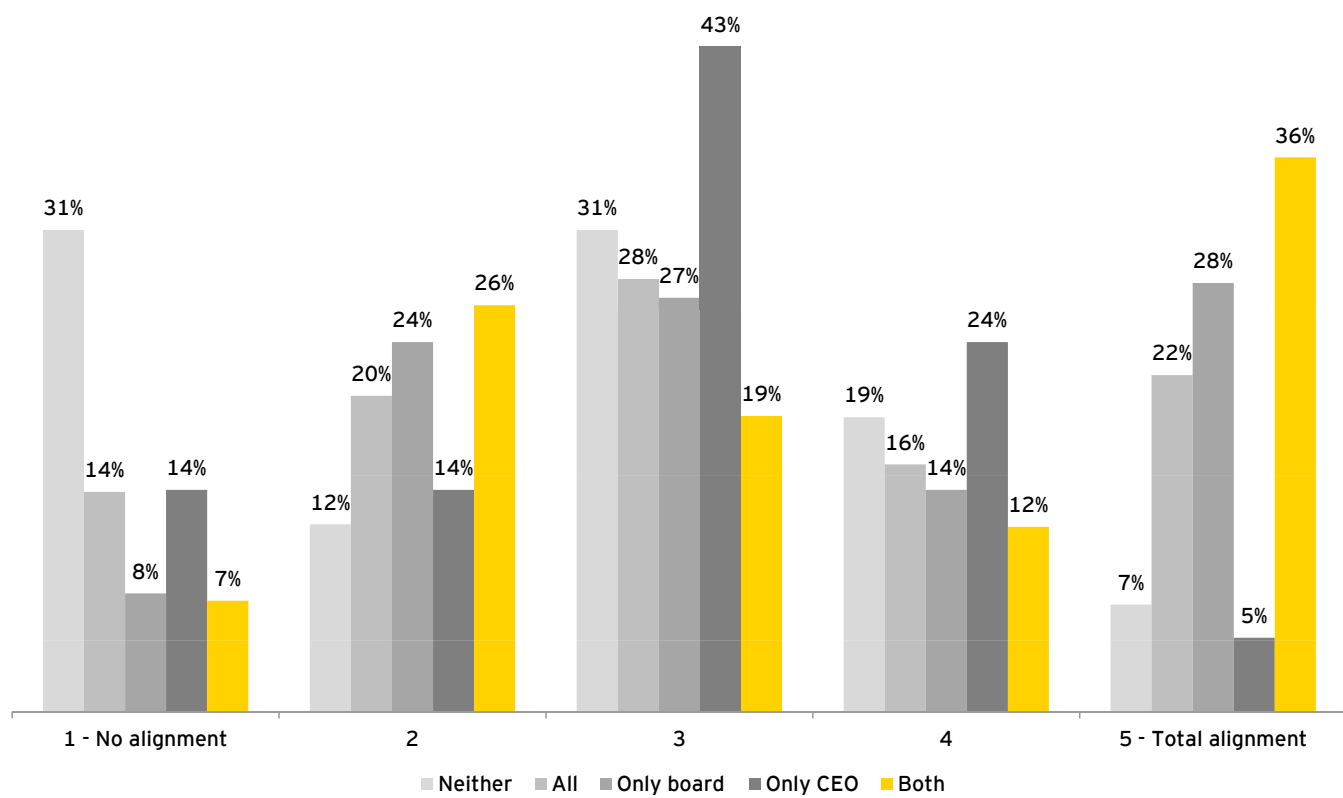
report was aligned with their responses to the Carbon Disclosure Project, Dow Jones Sustainability Index and other surveys. Companies that have a greater level of engagement from the CEO and the board have much closer alignment between what they voluntarily disclose (such as CDP and DJSI) and what they are mandated to disclose (such as 10-K filings).

When the CEO and the board are involved, there is much greater alignment in risk identification and disclosure. While 22% of surveyed companies indicated total alignment on both mandated and voluntary sustainability disclosures, 36% acknowledge “total alignment,” indicating both a fully engaged board and CEO. A full 86% of those totally aligned companies have corporate sustainability “embedded into strategic planning and capital budgeting.” Fully 70% of respondents said, “Our mission statement includes social and environmental matters.” Nearly as many (68%) said, “My organization regularly discusses sustainability-related risks and opportunities with investors and other stakeholders.”

Such numbers represent a high level of engagement at least among our survey sample. This is an encouraging finding. Heightened CEO and CFO attention to sustainability reflects the gradual ascent of sustainability issues within the corporate risk register. C-suite involvement also underlines the growth of corporate sustainability as a strategic differentiator.



How aligned is your company’s disclosure of sustainability-related risks published in your 10K or annual financial report with your company’s responses to the CDP, DJSI, and other surveys?



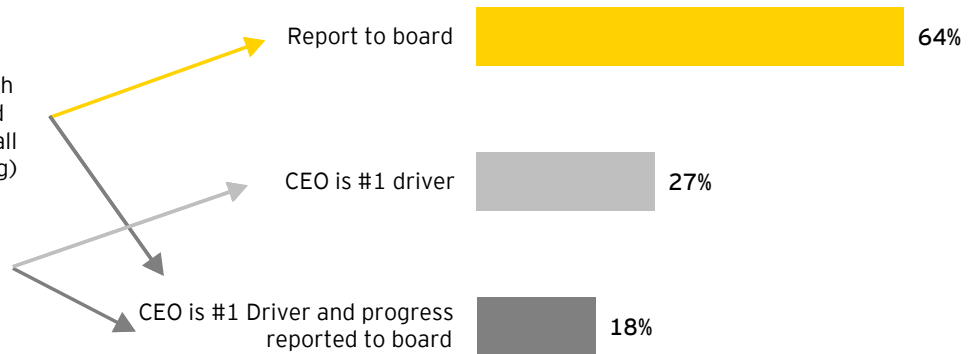
Companies that have a greater level of engagement from the CEO and the board have much closer alignment between what they voluntarily disclose (such as CDP and DJSI) and what they are mandated to disclose (such as 10-K filings).



Who is driving?

Q1: To what degree is sustainability embedded with your corporate strategy and governance? Please select all that apply. (no stack ranking)

Q2: Which of the following most drives your company's approach to sustainability (please select the top 3)? [27% represents those who ranked CEO at #1]





TREND

2

Governments and multilateral institutions aren't playing a key role in corporate sustainability agendas.

For several years now, the public sector's role in promoting corporate sustainability has been, at best, neutral. That may please those whose political bents favor the status quo, but for many of the world's largest corporations, it's a source of endless frustration. Companies need certainty to make investments and other major decisions, and the uncertainty that comes from a political stalemate is seen by many companies as detrimental to business planning, risk management, research and development agenda, and corporate sustainability strategy.

The multilateral institutions haven't helped much. The annual series of United Nations-led climate summits known as COPs (for "Committee of the Parties") has been a globe-hopping failure – from Copenhagen and Cancun to Durban and Doha, not to mention 2012's Rio+20 summit. What just a few years ago had been a strong sense of optimism that these meetings could push the world's governments to agreement and action on some of the planet's biggest challenges has devolved into disarray and disappointment.

Others have stepped in to fill the void. Nongovernmental organizations, for example, have stepped up, playing both "good cop" and "bad cop" to prod both companies and governments to take action. Some NGOs, leveraging social media and the Internet, have implemented "name and shame" campaigns that rank companies on one or more issues. Corporate rankings, like those published annually in some magazines, are highly watched, if not always well regarded, by companies.

Some NGOs have pushed for transparency and accountability. The Carbon Disclosure Project, for example, is frequently named as an energetic and effective campaigner to push companies to disclose their carbon footprints; more recently, it has expanded its efforts to include disclosure of water-related risks. Its efforts are moving companies far faster than any regulatory or legislative schemes.

NGOs serve companies in another way. Some executives see NGOs serving as an early-radar system, identifying issues likely to rise in public (and media) concern – chemicals of concern, for example, or biological hotspots from which companies may be sourcing raw materials. Many corporate sustainability executives reveal privately that activists and ratings organizations get the attention of company leadership far more effectively than the sustainability executives themselves have been able to do.

And then there are the stock exchanges, which are slowly awakening to sustainability issues and, in some cases, viewing these issues as material to their listed companies. NASDAQ OMX, for example, is one of the founding members of the Sustainable Stock Exchanges initiative, which promotes reporting on environmental, social, and corporate governance risks and opportunities by publicly traded companies. The Johannesburg Stock Exchange requires its more than 450 companies to produce integrated reports, which combine financial data with reporting on ESG issues. Another, the Brazilian exchange BM&FBOVESPA, adopted a comply-or-explain policy in 2012, asking its listed companies to state that they publish a regular sustainability report and where it can be accessed or explain why they do not.

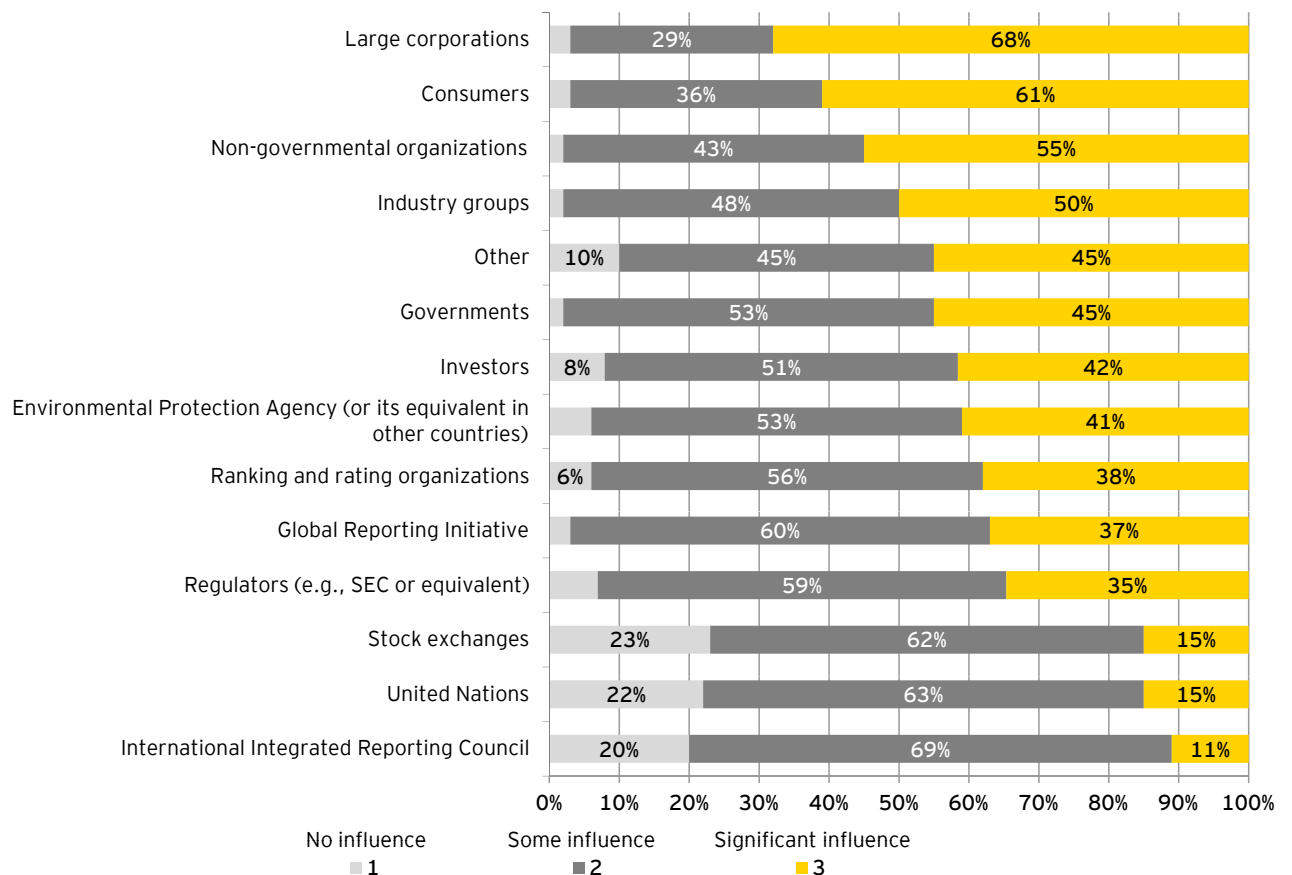
68%

of large corporations have a positive impact on advancing sustainability on a global basis

This is on top of the substantial corps of institutional investors that are now screening investments using some sustainability or corporate responsibility criteria. For example, the Investor Network on Climate Risk is a network of 100 institutional investors representing more than US\$10 trillion in assets committed to addressing the risks and seizing the opportunities resulting from climate change and other sustainability challenges.

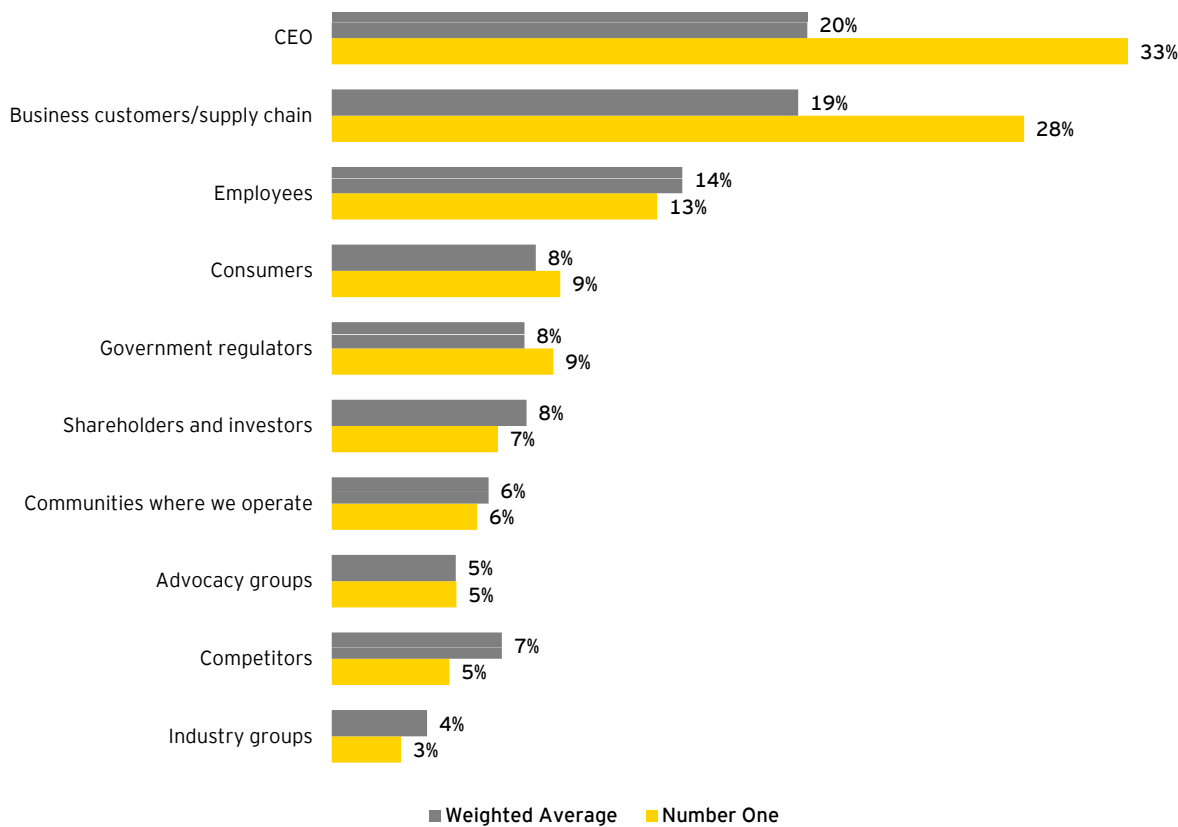
All of these groups – media organizations, stock exchanges, institutional investors, and both activist and business-friendly NGOs – comprise much of today’s “regulatory” agenda, an emerging new set of standards to which companies must comply.

Which groups have a positive impact on advancing sustainability on a global basis?





Who drives the company's approach to sustainability?





TREND

3

Sustainability concerns now include **increased risk and proximity** of natural resource shortages.

Company concern about resource shortages is nothing new, but only recently have companies started connecting the dots to sustainability-related issues. As extreme weather (floods, droughts, hurricanes, wildfires) combines with environmental realities (overfishing, clearcutting) and social and political issues (conflict minerals, electronic waste) – not to mention growing global demand for resources across the board as a result of population growth, particularly in emerging economies – companies are recognizing that the new normal is a world in which corporate sustainability and access to natural resources are inextricably linked.

Company concern is exacerbated by the inability of governments and transnational institutions to effectively broker international agreements to limit global environmental decline. That has left these issues to market forces, which often omit or underprice external costs to the environment and society for the resources' exploration, extraction and use.

This is no small matter. Some countries' sovereign debt ratings may be less robust than many investors may realize if depletion of natural resources is taken into account, suggests a 2013 study issued by the United Nations Environment Programme (UNEP) Finance Initiative. Sovereign bonds represent over 40% of the global bond markets. They are traditionally considered a reliable and risk-free investment of choice by fund managers. At the end of 2010, outstanding sovereign debt was equal to US\$41 trillion. As countries find their natural resources depleted or threatened, or their use deemed unsustainable and undesirable by citizens in other countries, the diminished value of these resources could make such bonds significantly riskier.

Water is an issue of particular concern. The world's water problems and the looming water-security crisis

were ranked high by the World Economic Forum (WEF) 2013 Global Risk Survey. WEF calls water one of the most tangible and fastest-growing social, political and economic challenges faced today. "In every sector, the demand for water is expected to increase, and analysis suggests that the world will face a 40% global shortfall between forecast demand and available supply by 2030," WEF concluded.

Climate change will affect global water resources at varying levels, as described within Ernst & Young's recent publication 'Water Resources at the Corporate Level, Moving from a risk based approach to active management.' The primary risk is posed by underground water sources, referred to as aquifers, that have formed over millennia by rainfall and are not recharged by any regular source of surface water. Such aquifers supply a large portion of the global agricultural and urban water supply and are increasingly and inevitably running dry. This issue is worsened by the fact that sources of surface water are in no position to pick up the slack given that they are also progressively depleted by factors, such as declining meltwater, over-extraction and deforestation impacting watersheds.

51%

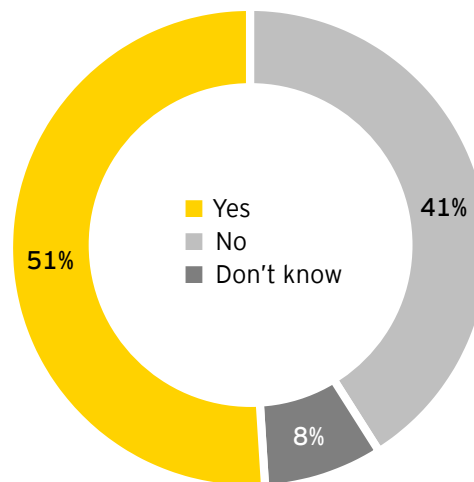
anticipated that their company's core business objectives will be affected by natural resource shortages in the next three to five years

In Asia, the large areas of irrigated land that rely on snowmelt and high mountain glaciers for water will be affected by changes in runoff patterns, while highly populated deltas are at risk from a combination of reduced inflows, increased salinity and rising sea levels.

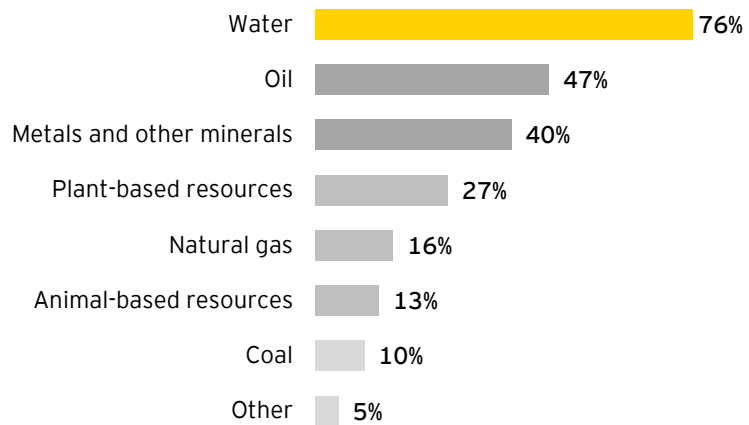
WEF's report was developed from an annual survey of more than 1,000 experts from industry, government, academia, and civil society who were asked to review a landscape of 50 global risks. Among other risks they rated "failure of climate change adaptation" and "rising greenhouse gas emissions" as among those global risks considered to be the most likely to materialize within a decade.

This concern was echoed by our survey participants, who ranked water as the number-one cause for concern among resources "most at risk," followed by oil and "metals and other materials." About half (51%) said they anticipate their company's core business objectives to be affected by natural resource shortages (such as water, energy, forest products, rare earth minerals/metals) in the next **three to five years**.

Do you anticipate your company's core business objectives to be affected by natural resource shortages (e.g., water, energy, forest products, rare earth minerals/metals) in the next three to five years?



Which resources are most at risk?





TREND

4

Corporate risk response is not well paired to the **scale of sustainability** challenges.

Companies' concern of the risks sustainability issues bring to their supply chains, reputation and even their right to operate has not been matched by their appraisals of the costs and benefits of various responses.

Our survey found 79% of respondents saying that sustainability risks are incorporated into their enterprise risk management framework. Simply put, that means 8 in 10 companies have incorporated environmental risks into their risk register and that their board of directors has oversight of how those risks are addressed by management.

That struck us as a surprisingly high number, particularly in light of their responses to another question: whether their organization had run scenario analyses considering the availability of key inputs such as water or other raw materials, access to arable land or population shifts. Only three in 10 companies – fewer than half of those saying they have incorporated corporate sustainability into risk management – said they had run scenario analyses; 36% said they had no plans to do so.

Perhaps it was a misalignment of language and vocabulary, or maybe a misunderstanding of what it means to do scenario mapping. In either case, it is clear that company risk awareness has not translated into preparedness.

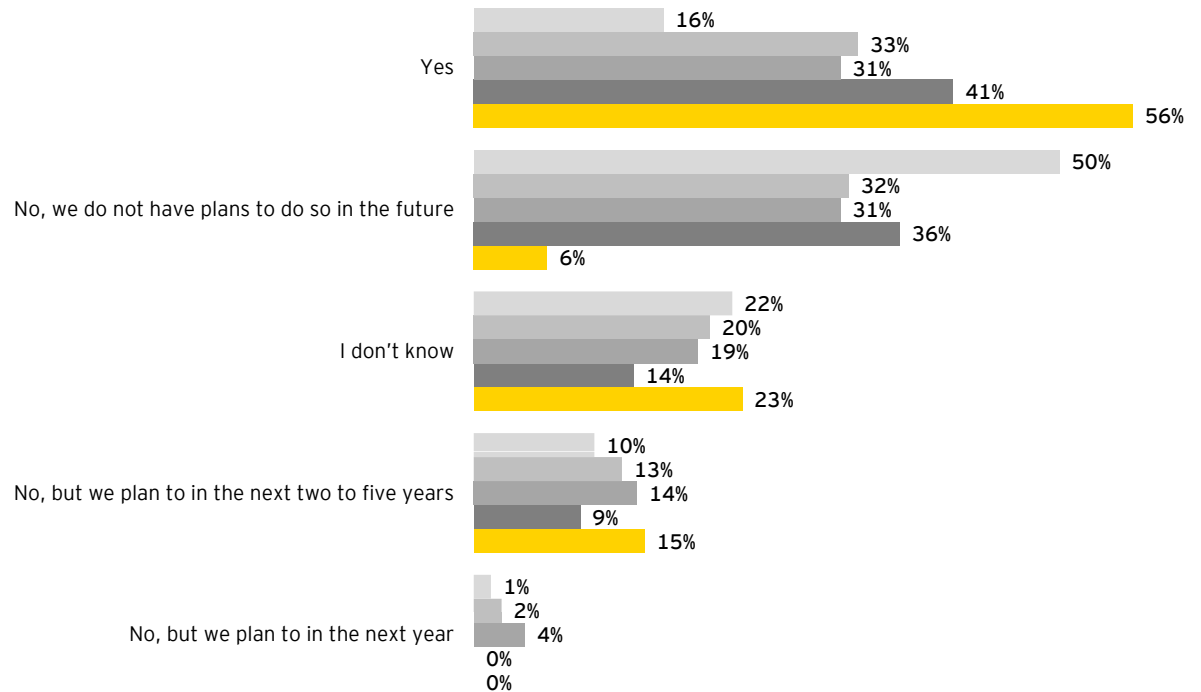
Water, as noted earlier, is another issue that is both strategic and uncertain. The questions for a company are fairly straightforward: Do we have sufficient access to water to achieve the level of output as needed throughout our production system? How will access to water rights be affected?

Or, more simply: When are we going to run out of water and where?

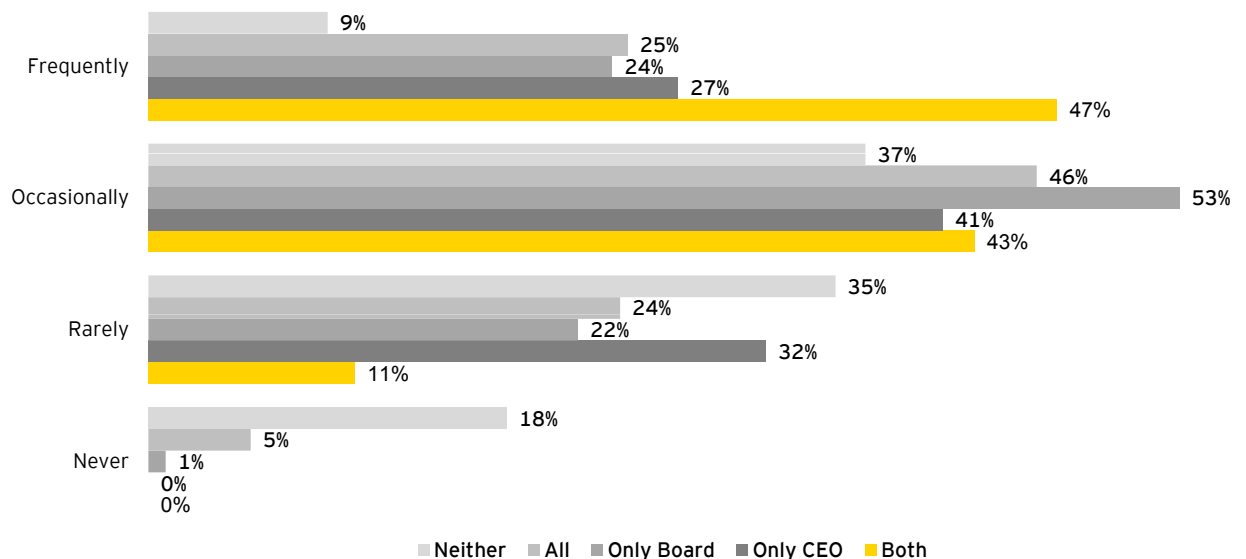
Additionally, the growing interconnectedness of issues – what some are calling the food-energy-water stress nexus – require a scenario-based approach that attempts to anticipate key tipping points that could quickly affect all three. What happens if a tipping point leads to the rapid adoption of carbon pricing or other regulatory responses?

Most companies do not yet have answers to such questions. And by not doing scenario planning, they are failing to integrate such risks, let alone develop confident appraisals of the costs and benefits of different adaptive responses. To the extent that companies view these things as financially material, it is not being mirrored in shareholder or regulatory disclosures.

Has your organization run scenario analyses considering the availability of key inputs such as water or other raw materials, access to arable land, or population shifts?

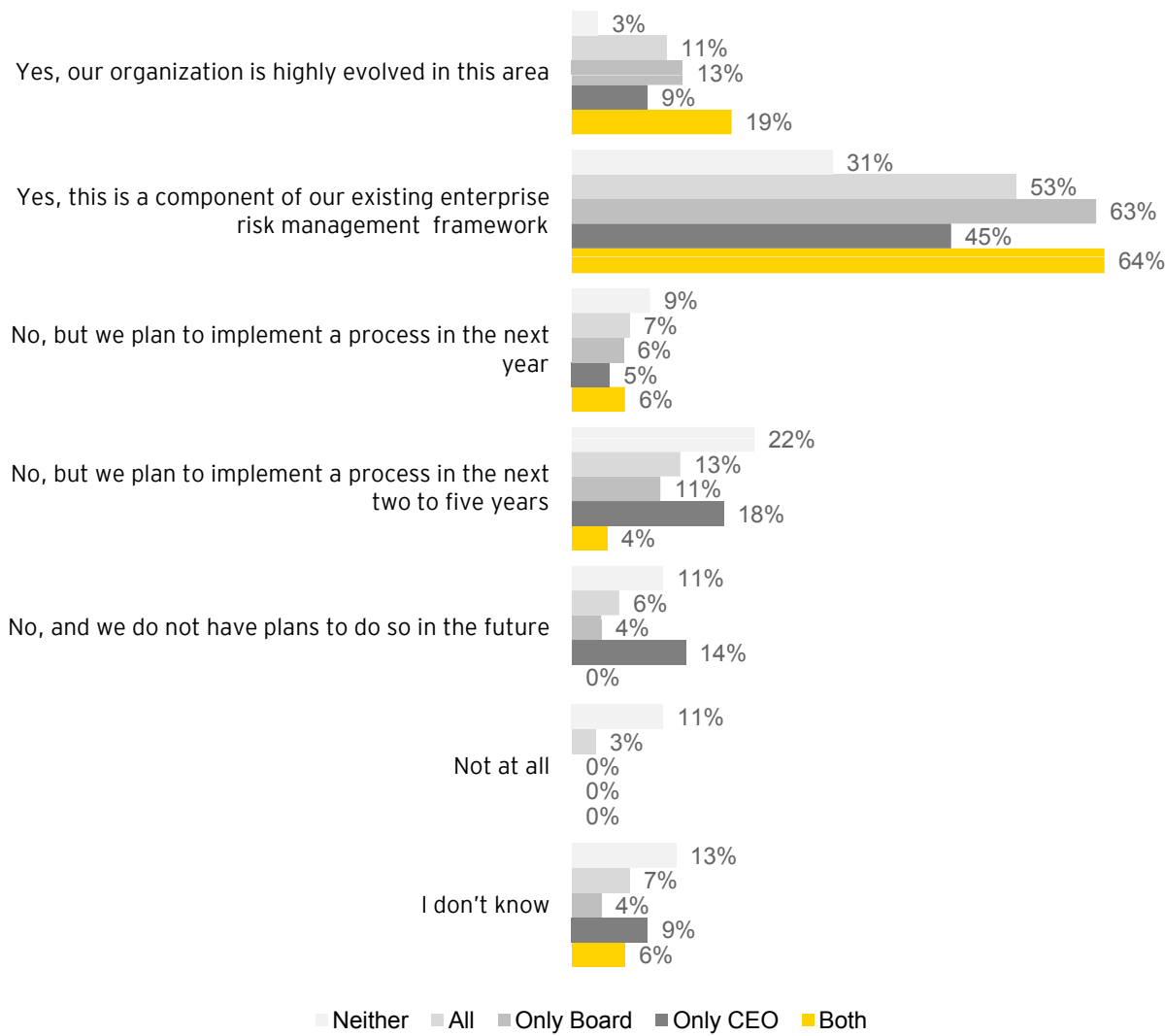


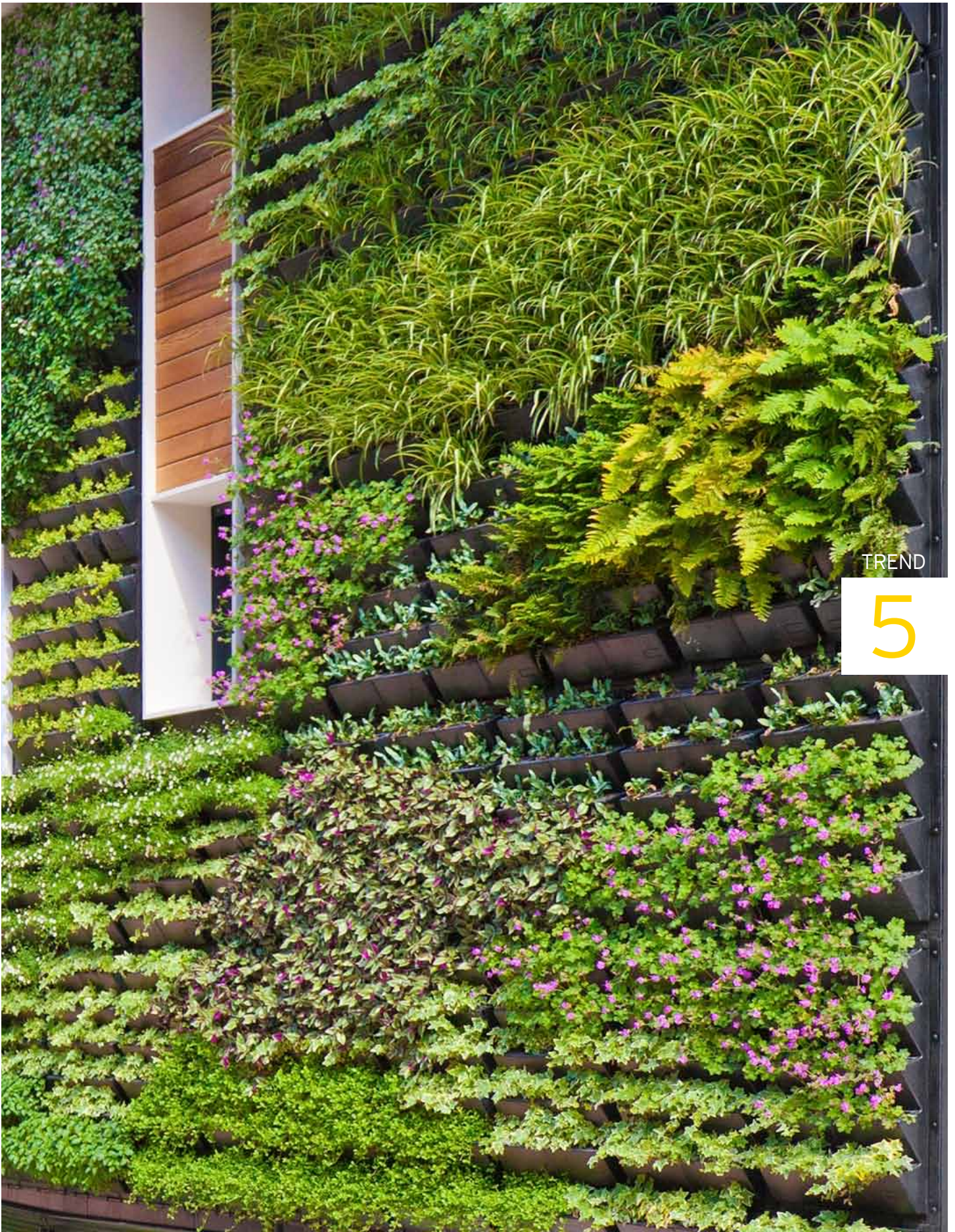
How often is the information you possess on your company's exposure to environmental, social and governance risk and/or opportunity sought out by senior executives in your organization for the purposes of strategic decision making?





Do you believe your company has the processes in place to anticipate effectively its exposure to increasing environmental, social and governance risk?





TREND

5

Integrated reporting is slow to take hold.

The idea of integrated reporting – that is, as defined by the IIRC, “a concise communication about how an organization’s strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term” – is compelling, based on our survey respondents. But for now, its promise remains elusive as companies grapple with whether, when and how to develop such reports.

To be sure, the buzz around integrated reporting has increased significantly in just the past two years. Where it once seemed an unattainable ideal, it is now viewed as inevitable – at least for some companies – as a growing corps of national and international interest groups align to press for integrated reporting.

Today, companies publish more than 5,000 sustainability and corporate responsibility reports a year worldwide, according to CorporateRegister.com. They vary widely in content and comprehensiveness. Most aren’t written with investors in mind; they are targeted at a broad range of stakeholders, many of which have a specific environmental, social or governance interest.

For the past few years, a growing movement has been pushing companies toward reporting key sustainability data in a much more investor-friendly way. Says Paul Druckman, CEO of IIRC, the global NGO pushing for integrated reporting, or IR: “The instigation of IR would be a powerful tool for investors and would install a culture of transparency, reliability and stability so that investors can begin to trust their money to longer term investments.”

It’s still early days for IR, and with that come some significant challenges to its growth. Among them is vocabulary – for example, how to bring concepts like “natural capital,” in which environmental impacts are assigned financial costs, to the CFO in a way that aligns with a company’s current understanding of risk and accounting. (Never mind that there’s not yet a standard definition of what “natural capital” even means, or

how to account for it.) Another is the question of why bother integrating corporate sustainability and financial accounting if it is not required.

The answer to the latter question is slowly emerging. A small but growing corps of companies now view integrated reporting as a means of encouraging “integrated thinking,” where environmental, social and financial impacts of business decisions are considered in concert – and, ideally, in a way where each one optimizes the others.

Moreover, while it may be a while before integrated reporting is mandated by regulation, market forces may provide de facto regulatory pressures. Among the sources are stock exchanges, particularly outside the United States. For example, the 500 companies listed on the Johannesburg Stock Exchange are now required to file integrated reports or explain why they can’t. Brazil’s BM&FBOVESPA has adopted a similar “Report or Explain” policy for listed companies. In the U.S., NASDAQ OMX Group, led by its vice chairman, Meyer “Sandy” Frucher, is already beginning to push integrated reporting. In 2012, it signed up to begin requiring more material information on ESG issues for listed companies.

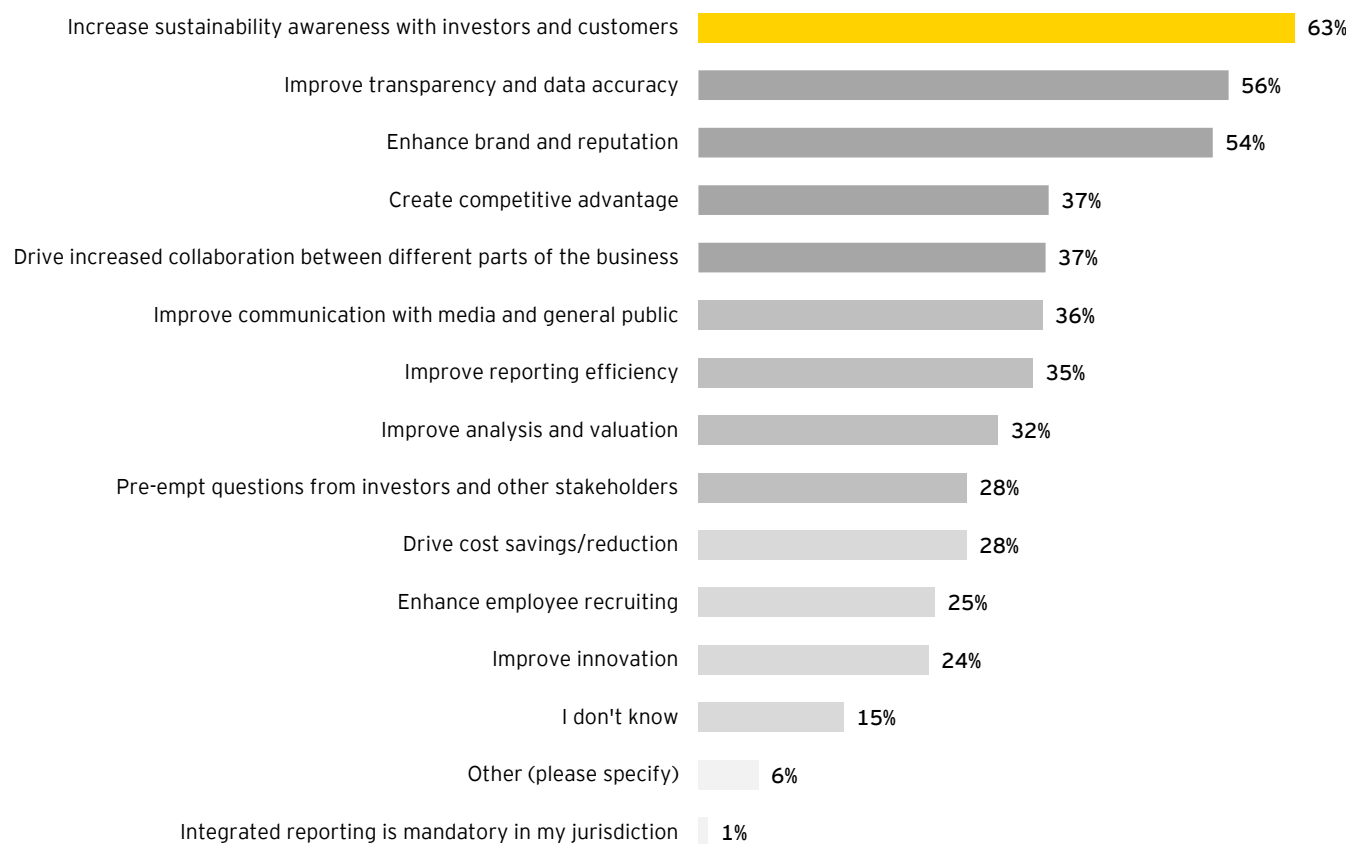
One challenge is that the growth and sophistication of corporate sustainability reporting is limited, if not undermined, by the tools companies are using to produce them. As we reported last year, “those tools remain rudimentary, even primitive, compared with those used for reporting on financial measures.” In our current survey, respondents identified the tools

Integrated reporting is slow to take hold

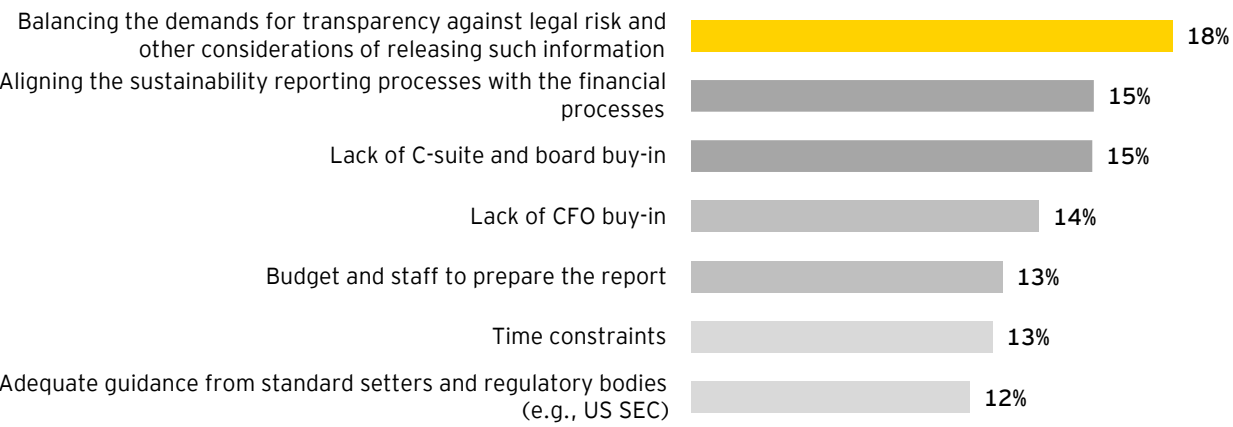
used for ESG performance data collection. Environmental reporting is the most sophisticated, with 37% using a centralized database while 26% use spreadsheets and 12% use email; social and governance data collection doesn't nearly fare as well, and fewer than 8% in any category use packaged software. As integrated reporting catches on, it will push companies to use tools that help them generate higher-quality sustainability data.

Respondents indicated a strong agreement that integrated reporting would be a positive influence on their company's sustainability performance, and would elevate it to senior management. 43% said that integrated reporting would be "extremely" or "very" helpful in such things as breaking down the silos, involving the CFO/finance team in sustainability-related initiatives and reporting, and validating the existence and importance of non-financial information reporting. Said one: "Integrated reporting would raise visibility of sustainability successes and challenges at the C-suite level. While the C-suite has awareness of such efforts, they do not necessarily see the relationship to business drivers." Only about 12% said such reporting would not be helpful.

Why create an integrated report now if it is not mandatory in your jurisdiction?



Please rank the following challenges for creating an integrated report (with one being the biggest challenge and seven being the least challenging).





TREND

6

Inquiries from investors and shareholders are on the rise.

As demands for disclosure on environmental and social impacts increase so does the number of surveys, questionnaires and queries to companies. They come from many and diverse directions: institutional investors, customers, media, industry analysts, communities, regulatory and non-regulatory government bodies (at the local, national and international levels), activist groups and various others. Each seems to want more or different data than the others, or may pose the same questions in slightly different ways. The resulting tsunami has overwhelmed many companies' ability to cope.

GreenBiz has conducted periodic surveys of surveys, designed to learn how much time companies are spending on surveys, how many they get a year, and their key issues. We learned that some large companies respond to more than 300 customer surveys each year. And that number doesn't seem to be going down. In some cases, companies that receive a high number of surveys each year are themselves sending out their own surveys, usually to suppliers.

Our group of survey respondents paralleled that view. Fully half reported that they are receiving an increase in the number of sustainability-related inquiries from investors and shareholders over the past 12 months. That underscores growing interest, particularly by institutional investors, many of which now view corporate sustainability issues as material to shareholder value.

As noted in the 2012 piece by Ernst & Young, entitled *Shareholders press boards on social and environmental risks: is your board prepared?*, the growth of queries also mirrors the growth of shareholder proposals on social and environmental issues, which now account for 40% of all shareholder proposals. Support for those proposals is growing, too: The average proposal received

21% of investors' votes in 2011, up from 10% in 2005, reflecting a relatively high level of interest and support.

At the top of the list of shareholder proposals are those focusing on companies' efforts to reduce energy consumption, an acknowledgment that energy efficiency not only increases competitiveness, but also reduces risks associated with volatile energy prices, as well as carbon taxes or other regulatory schemes. Second highest on the list are proposals addressing greenhouse gas emissions reductions or adoption of quantitative greenhouse gas goals.

Climate and energy will likely remain front and center for shareholders. At the institutional level, investors are getting increasingly organized around these topics. For example, the Investor Network on Climate Risk is a network of 100 institutional investors representing more than US\$10 trillion in assets "committed to addressing the risks and seizing the opportunities resulting from climate change and other sustainability challenges." Groups like this are working feverishly behind the scenes, not just to push shareholder resolutions, but also to press for policy changes, increased voluntary disclosure, and adoption of climate disclosure practices by stock exchanges.

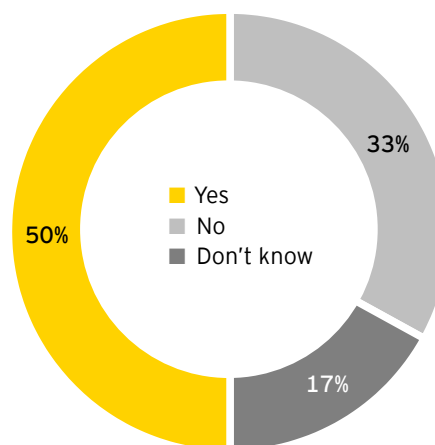
What makes shareholder proposals succeed?

Prominent environmental and social proposals tend to share certain characteristics. Three characteristics that appear to impact the relative prominence of a proposal*:

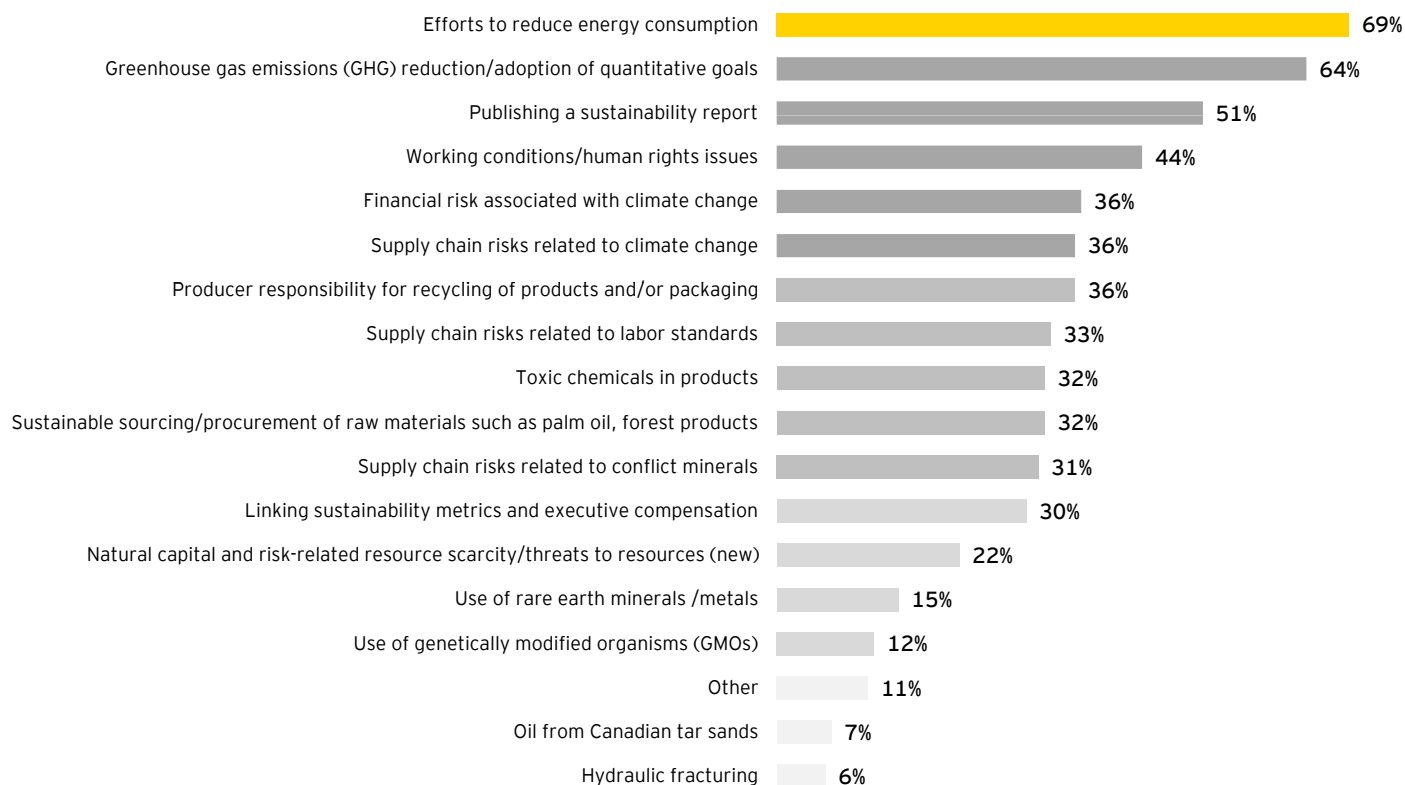
- **Targeting:** proposals at companies where investors raise concerns over board performance received higher voting support.
- **Timing:** proposals connected to current events and supporting ongoing trends gain prominence from their association with the headline, i.e., making events and/or related attention.
- **Tenacity:** the highest supported proposals receive even more support the second time they are submitted at the same company.

* Source: *Key Characteristics of Prominent Shareholder-Sponsored Proposals on Environmental and Social Topics, 2005-2011*, International Integrating Reporting Council, 2012.

Has your company seen an increase in inquiries from investors/shareholders about sustainability-related issues in the past 12 months?



All shareholder inquiries



Conclusion

To address these six growing trends in corporate sustainability, organizations are well advised to follow the following action steps:

1. Address vocabulary challenges head on, build multi-disciplinary teams
 2. Get sustainability, risk and investor relations together
 3. Model scenarios of water shortages, climate change, and population growth for risk planning
 4. Monitor shareholder resolutions across multiple industries to stay ahead of the curve
 5. Monitor NGO activity as a precursor to regulation or market pressure
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Our point of view

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Conflict minerals

Dodd-Frank Section 1502 and the SEC's final rule



How today's investors are framing conversations on corporate sustainability



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Contact us

Steve Starbuck
Americas Leader,
Climate Change and
Sustainability Services
+1 704 331 1980
stephen.starbuck02@ey.com

Adam Carrel
Senior Manager,
Americas Climate Change
and Sustainability Services
+1 212 773 5967
adam.carrel@ey.com

John DeRose
Executive Director,
Americas Climate Change
and Sustainability Services
+1 720 931 4306
john.derose@ey.com

Andrew Essreg
Senior Manager,
Americas Climate Change
and Sustainability Services
+1 202 327 6107
andrew.essreg@ey.com

Chris Hagler
Senior Manager,
Americas Climate Change
and Sustainability Services
+1 404 817 5799
chris.hagler@ey.com

Brendan LeBlanc
Executive Director,
Americas Climate Change
and Sustainability Services
+1 617 585 1819
brendan.leblanc@ey.com

Paul Naumoff
Global/Americas Director,
Sustainability and Cleantech
Tax Services and National
Director, Tax Credits and
Incentives Advisory Services
+1 614 232 7142
paul.naumoff@ey.com

Becky Sternberg
Senior Manager,
Climate Change and
Sustainability Services
+1 415 894 8804
rebecca.sternberg@ey.com

Chris Walker
Associate Director,
Americas Climate Change
and Sustainability Services
+1 212 773 2630
chris.walker@ey.com

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