



**THE GLOBAL
COMPACT**

**REPORT OF THE GLOBAL COMPACT
3RD COP ANNUAL EXPERTS MEETING**

GENEVA, PALAIS DES NATIONS, 2-3 APRIL 2007

Executive summary

The Global Compact office organizes an annual expert meeting on Communication on Progress (COP) to inform Global Compact participants about the current status of COP and to get input and practical recommendations for its future work.

This year's meeting brought together 30+ experts from Global Compact participants, country networks, service organizations, investors, academia and the Global Compact office. The overall question of the meeting was twofold: How can the large number of "inactive participants" (participants who do not report) be reduced, and how can the quality of the COPs of the reporting companies be further improved?

A new perspective from investors in this meeting was that it is important for companies to better understand how their CSR activities drive their value creation and that they need to communicate this better to the financial community. Companies must work harder to explain the value case to investors, because investors are increasingly taking environmental, social and governance factors into account when choosing an investment portfolio.

On *Day One*, participants heard a series of presentations on the value of reporting for the companies and for stakeholders, especially investors. Also, the limitations of the current reporting practices were addressed and incentives as well as obstacles for reporting were presented and discussed. *Day Two* focused on the way forward: Tools and practical approaches to overcome obstacles and increase the quality of COP reporting were presented and discussed.

The following issues were identified to be important to motivate inactive participants:

- Country networks play a decisive role as they know the challenges and needs of their companies well.
- Templates can help companies prepare a COP.
- Companies and the Global Compact need to make the business case for Corporate Responsibility ("value creation").
- Convince the companies of the value of communication.

Participants presented their CSR reporting approaches and what internal and external benefits their reports create. Several approaches for improving the quality of COPs were presented and discussed:

- Peer reviews or other forms of assurance and mentoring programs, e.g. within the country networks.
- Provide clear guidance and feedback that is appropriate to a company's unique operating environment.
- Provide transparent criteria for notables program.
- Investors and other stakeholders should request more and better information on a company's non-financial performance.

Day One:**I. The State of the COP**

Jeff Senne – Global Compact office

The Communication on Progress (COP) policy was implemented to protect both the brand and the integrity of the Global Compact and the United Nations. Over time, the COP process has assumed an ever greater role as a valid indicator of engagement, generating vital information about innovative activities of Global Compact champions while at the same time giving inspiration and momentum to organizational change on a larger scale.

With the complete implementation of the Global Compact's integrity measures in 2006, the new COP policy is now fully in place. Consequently, in alignment with the terms of the policy, 538 companies have been marked "inactive" (deactivated) on the Global Compact website, due to their repeated failure to communicate on progress made in the implementation of the Global Compact principles. This measure was widely praised by civil society, media and businesses alike as a strong sign of the initiative's commitment to transparency and accountability.

The further development of COPs in terms of quantity and quality will critically impact the Global Compact's future progress and direction. Lest the initiative become an exclusive club of global communicators, the Global Compact should offer sufficient flexibility to provide both leaders and laggards with tools and resources to disclose information in a meaningful manner. To this end, the further understanding of the incentives and obstacles to initiate deeper engagement will be critical, as will the development of incentives and models that differentiate engagement levels and thus distinguish between different expectation levels with regard to COPs.

The workshop is intended to further our work in this area.

II. Two Notable COPs

Petrobras – Ana Paula Grether M. Carvalho

Petrobras sees the role of social and environmental reporting as a tool to ensure rendering of accounts, to create a dialogue with its stakeholders and to improve the quality of the company's management style. Its Communication on Progress (COP) is embedded in its Corporate Social Responsibility Report. In order to measure results, Petrobras uses a variety of reporting indicators including the Ethos and Global Reporting Initiative (GRI) guidelines.

The CSR department, which writes the report, collects information from all company departments based on a questionnaire. 265 people are involved in compiling the answers for the CSR report. Petrobras sees its COP as a way to engage people. Its employees are

proud to be part of a sustainability framework in Brazil and worldwide, which has increased employee commitment.

Noteworthy elements in the Petrobras' 2006 CSR report:

- The text of its report is structured around the ten Global Compact principles.
- The report was shortened after consultation with stakeholders.
- The GRI G3 and Ethos indicators were improved and revised, which led to a new version of Corporate Responsibility indicators.

Novozymes – Michael Hougaard Pedersen

Novozymes' Board Chairman and CEO are highly committed to corporate sustainability and created a sustainability bonus scheme for its VPs around the world, based on which its top management gets an annual bonus depending on whether the company reaches its sustainability targets by the end of each year. The targets are set by the board at the beginning of the year, and are accounted for in the company's Annual Report.

The COP helps Novozyme build its credibility and prove to its stakeholders that it does what it says. Furthermore, the COP provides a comprehensive picture of the company's risks and opportunities, which supports investors' analyses.

Noteworthy elements in Novozymes' 2006 Annual Report:

- The report is available only on the internet, which helps the company collect useful information about the readers' interests and which allows readers to create their own personalized report ("My Novozymes" report).
- The report is structured around the ten Global Compact principles and cross references the issues with the GRI indicators.
- The report defines an integrity system on anti-corruption practices.

III. The Value of Communicating on Progress

Greg Unruh and Stephanie Schlecht, Thunderbird School of Global Management

A company's value is determined to a large degree by "goodwill," or a level of trust that the product is worth its price. Where there is a loss of trust, punishment of the marketplace is disproportionately harsh and can lead to a decrease in stock value equal to 500 to 1000 times the amount of trust lost. The cycle of trust is built through making commitments and fulfilling the commitments.

By reporting to the stakeholders, a company can demonstrate its commitment, thereby building trust and creating brand value.

Key benefits of reporting on corporate responsibility include:

- Attracting talent
- Improving corporate identity and employee morale
- Cross-functional communication
- Internal benchmarking and gap analysis

- Receiving stakeholder feedback
- Strengthening the brand name

IV. The Future of Reporting

Markus Noethiger, PricewaterhouseCoopers

The market is looking for better quality information, not more information. This is achieved when companies have a demonstrated business case for sustainability and see the value-added of engaging in corporate responsibility issues.

A company's intangible assets like core competencies, reputation or customer satisfaction can add significant value to a company's brand. Value-creating activities in the environmental, social and human resources areas increase a company's financial performance. Reporting should mirror the internal reality of a company and demonstrate the value-added of implementing the Global Compact principles.

To improve the quality of COP reporting, the Global Compact should continue to:

- build the business case for implementing the Global Compact principles through case studies and good practice examples;
- offer solutions and guidance, which enable companies to integrate COP into existing management information and reporting systems;
- foster dialogue and learning platforms to stimulate COP, offering motivation and incentives;
- provide transparent information on COP status (i.e. notables, non-communicating, etc.) to all participating companies.

Key recommendations to companies to produce quality COPs:

1. Understand how non-financials are linked with financial value drivers;
2. Manage all relevant resources efficiently, not just financial capital;
3. Use one system/process to manage, gather and report information;
4. Communicate effectively and real-time with all stakeholders, not just the financial community.

V. Investors: Why They Care and What They Care About

Melchior de Muralt, de Pury Pictet Turrettini & Cie. SA

Lila Preston, Generation Investment Management

Ethical investment funds are growing quickly, and over the past ten years, financial analysts began to integrate environmental, social and governance (ESG) factors into the investment strategies. With Petrobras, for example, community projects received high praise and prevented attacks on their extractive infrastructure, which created long-term investment value.

What is still missing for investors when they look at corporate reporting is a clear perception at the strategic level that there is value-creation based on a company's ethical

criteria. Investors feel that only looking at a company's financial report misses the big picture.

Examples of sustainability issues that are systematically looked at by investors include:

- Climate Change
- Pandemics / HIV/AIDS
- Poverty / Real Needs
- Water
- Human Capital
- Lobbying
- Corporate Governance
- Stakeholder Engagement
- Bribery / Corruption
- Demography / Urbanization

A COP helps investors gather information on management quality; a company's consistency (what they say is what they do); how a company communicates; and it also serves as a research tool to gather more general information about a company. The COP therefore is a part of the two-way communication between companies and investors.

In the future, companies need to talk about long term strategy and non-financial drivers of performance. Analysts will follow the company lead.

VI. Incentives and Obstacles for Reporting

Soledad Mills, CSCC (Cal Safety Compliance Corporation)

Flavio Fuertes, Global Compact - Argentina

Incentives

A COP addresses stakeholder concerns and differentiates a company from its competitors. A COP helps identify risks, opportunities and trends and is a useful tool for stakeholder engagement and investor relations.

Obstacles

- Understanding the benefits of engagement / impact not measurable
- Stakeholders are not asking for it
- Competitors are not doing it
- Private vs. public ownership
- Information is not complete or not accessible
- Legal liability / Watchdogs prevent liberal reporting
- Lack of Global Compact brand recognition
- SMEs lack the capacity to produce a COP / Lack of human resources
- Change in leadership lead to new priorities
- Global Compact does not provide sufficient technical assistance or guidance
- Companies operate in difficult contexts or face sensitive issues

- Tools not always available in all languages

Day Two:

VII. To Template or not to Template?

Isabel Garro, Global Compact - Spain

The Spanish Global Compact network promotes a template to produce COP that is widely used by the companies. The COP template is based on an online questionnaire that is modular so it can be used by companies of different sizes and different complexity (subsidiaries, sector specific exposures etc.).

Templates provide a common starting point and can be particularly useful to first time reporters. They can also provide an excellent way for the focal point (entity that manages the network) to check all COPs before they are published on the website and therefore increase the quality where the focal point also offers the companies to give them feedback and advice on how the COPs could be improved.

VIII. Benchmarking

Fritz Brugger, Guile Engagement Team

The Swiss Guile Foundation initiated an investment fund that invests in companies that are (a) Global Compact participants and (b) display excellent financial performance. Several services are offered to the portfolio companies, the basic one being a COP benchmarking.

The COP benchmarking is based on robust criteria that allow for assessing to what extent the COP covers the GC principles as well as the quality of the information disclosed in the COP. The COP assessment can then be compared (benchmarked) using e.g. a best-in-class approach. The benefit for the companies is to get external feedback that can be seen as input for continuous improvement.

IX. Principles of Excellence in Reporting

Alan Knight, AccountAbility

It's not about reporting but about performance. In other words, reporting is just the final step of communicating what before has been planned, implemented and assured. "Materiality" addresses the question of what is relevant for a business, i.e. what influences business performance.

Assurance was presented as an outcome but also as a process for improvement. There are many forms of assurance such as self-declaration, 3rd party assurance, peer reviews or stakeholder panels. It was also noted that a difference can be made between assurance for

stakeholders (which builds trust) and assurance for the company management (which places confidence in their management system and data).

X. Peer Review

Tara Hopkins, Rio Tinto

The UK network has different working groups, one of them focusing on COP. The COP working group, which has 15 members, focuses on member benefits and offers the UK participants three services:

- 1) COP mentoring program: Members inexperienced in producing COPs can request mentoring from those who've done it before.
- 2) COP peer review (informal assurance process):
 - a. COPs are gathered into pools at 4-5 appropriate review dates through the year;
 - b. the secretariat selects from the pool a batch of 3-4 COPs, using transparent criteria for inclusion;
 - c. a peer review group of three members is formed;
 - d. the peer review group judge compliance with UNGC COP requirements, with three possible verdicts: Compliant / Compliant with qualification / Non-compliant with reasons
- 3) Guidance for participants: A guidance document with optional COP template is offered.

XI. Annual Reporting for Bi-Annual Reporters?

Lisa Huggins-Chan, Cadbury Schweppes

Some companies have begun to choose to issue CSR reports every other year. There are obvious economic advantages to this approach and some operational ones as well e.g. few stories for communication every year; less effort for approval and assurance; staff can focus on activities rather than on reporting.

The main disadvantages of two-yearly CSR reports are that the reports are not integrated into annual (financial) reports and therefore CSR issues might become disconnected from the company's annual goal setting process. This also puts a Global Compact participant in the position of submitting their CSR report as COP one year and needing to submit a different format COP for the other years.

Cadbury Schweppes handles this by submitting a stand alone COP to fill the gap between their biennial CSR reports, which they submit as COP in those years in which they create these reports. This approach works well for Cadbury Schweppes as it allows for the Global Compact to be fully integrated into their main CSR report and it also allows them to focus solely on the Global Compact principles in the years they create a stand alone COP.

XII. Headquarters and Subsidiaries: How to implement and report?

Angel Fraile, ENDESA

ENDESA is headquartered in Spain and has subsidiaries in many European and Latin American countries. ENDESA believes that its commitment to the Global Compact is better guaranteed if it is assumed not only top-down but also bottom-up (i.e. supported by all employees, subsidiaries and collaborators).

ENDESA promotes that all subsidiaries participate in the Global Compact as well as in the national networks and has created a guide for engagement in the Global Compact. This guide helps to promote the Global Compact within the company and guides the subsidiaries on the company vision and how to implement the principles. It also helps to paint the picture of how the headquarters will work to coordinate the activities as well as provide guidance on reporting.

All of ENDESA's subsidiaries are directly supporting the Global Compact and are publishing their individual Sustainability Reports.

XIII. Discussion: What can we do to foster continual improvement for those who are communicating and help those who are not?

Jeff Senne and Oliver Johner, Global Compact Office

Fostering further improvement requires guidance and feedback and therefore the Global Compact office is expanding its capability to provide both; especially in regard to the guidance on how to create value and the notables program.

The Global Compact Office is working to provide further guidance to participants in meeting the COP requirements. The primary document remains The Practical Guide to Communication on Progress, which is now under revision. One section undergoing revision is the 'Hints and Tips' section which focuses on the issues of process effectiveness, content quality, and credibility of communication. This section is intended to help companies create the most value possible via their COP.

The Notables program aims at highlighting and recognizing COPs that best meet the requirements as defined and communicated by the Global Compact. As the existing program showed some limitations, some changes are required.

It was suggested that COPs must meet a minimum requirement before being considered and then a set of attributes/symbols be determined that can highlight specific achievements such as innovation, best in country/region/sector, commitment, stakeholder engagement. etc. The question was raised whether companies with Notable COPs will get a certificate.

IVX. Using the GRI G3 Guidelines to Communicate Progress

Alyson Slater, Global Reporting Initiative (GRI)

The Global Compact Office and the Global Reporting Initiative (GRI) established a partnership because they have shared interests in the area of reporting. Based on the draft publication “Making the Connection - Using the GRI's G3 Reporting Guidelines for the UN Global Compact's Communication on Progress” it was discussed how GRI and Global Compact requirements can best be addressed simultaneously. The publication will be revised and will be published at the Leaders Summit in early July 2007.

Presentations by Jens Rupp, Coca Cola HBC, and Anne Gambling, Holcim

Holcim and Coca Cola HBC both meet very advanced reporting standards. Both companies are Global Compact participants and use GRI G3. Based on their experience, the presenters made concrete recommendations on how the publication “Making the Connection” could be improved to meet the needs of the target audience and to unleash the full potential the publication offers in terms to reduce time and resources for reporting:

- Define audience
- Improve the tables
- Shorten the text
- Improve design.

Appendices:

1. Program of workshop
2. List of participants

1. Program of workshop

April 2 2007

9:00 Welcome, Introductions and the Process of Progress: What we have learned so far

Claude Fussler, Senior Advisor to the Global Compact

9:30 The State of COP

Jeff Senne, COP Manager, Global Compact Office

10:00 Two Notable COPs

- Ana Paula Grether M. Carvalho, Petrobras

10:30 Coffee Break (All coffee breaks and the dinner hosted by Coca Cola HBC and Lego)

10:45 Two Notable COPs continued

- Michael Hougård Pedersen, Novozymes

11:15 First Findings: The Value of Communicating Progress Project

Presentation by Stephanie Schlecht and open discussion led by Greg Unruh, The Lincoln Center for Ethics in Global Management

12:00 The Future of Reporting: Defining context and how COPs can be integrated into existing management and reporting systems.

Presentation and discussion led by Markus Nöthiger, PricewaterhouseCoopers

13:00 Lunch

14:00 Investors: Why they care and what they care about

Presentation by Melchior de Muralt, de Pury Pictet Turrettini & Cie. SA

14:45 Incentives and Obstacles: Why some communicate

- External Change / Engagement – Soledad Mills, CSCC
- Responding to Investors – Lila Preston, Generation Investment Management

15:45 Coffee Break

16:15 Incentives and Obstacles: Why others do not

Open discussion led by Flavio Fuertes, Global Compact - Argentina

17:15 Day one Wrap – up

Claude Fussler, Senior Advisor to the Global Compact

20:00 Dinner - Hosted by Coca Cola HBC and Lego

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April 3 2007

8:30 Welcome Coffee & Review of Day One

Claude Fussler, Senior Advisor to the Global Compact

08:45 Presentations & Discussions on Open Issues Part 1 (15minute presentation-15 minute discussion)

- To Template or not to Template? – Isabel Garro , Global Compact - Spain
- Benchmarking? – Fritz Brugger, Guilé Engagement Team
- Principles of Excellence in Reporting? – Alan Knight, AccountAbility

10:15 Coffee Break

10:30 Presentations & Discussions on Open Issues Part 2

- Peer Review - Tara Hopkins, Rio Tinto
- Annual reporting for bi-annual reporters? – Lisa Huggins-Chan, Cadbury Schweppes
- Headquarters and Subsidiaries; How to implement and report? – Angel Fraile, ENDESA

12:00 Discussion: What can we do foster continual improvement for those who are communicating and help those who are not?

Presentation by Jeff Senne and open discussion led by Oliver Johner, COP Analyst, Global Compact Office. Topics to include Notables program, Quality and Value Guidance, COP review program, trainings, tools and guidance documents.

13:00 Lunch

14:00 Using the GRI G3 Guidelines to Communicate Progress.

Discussion led by Alyson Slater, GRI

- Presentation by Anne Gambling, Holcim
- Presentation by Jens Rupp, Coca Cola HBC

15:00 Coffee Break

15:30 Using the GRI G3 Guidelines to Communicate Progress – cont.

Discussion led by Alyson Slater, GRI

16:15 Workshop Wrap-up and closing

Claude Fussler, Senior Advisor to the Global Compact

2. Workshop Participants

Organization	Name
AccountAbility	Mr. Alan Knight
AccountAbility	Mrs. Mairead Cahill
Bosch	Mr. Bernhard Schwager
Bosch	Ms. Sabine Lutz
Cadbury Schweppes	Ms. Lisa Ann Huggins-Chan
Coca-Cola	Ms. Angela D. Harrell
Coca-Cola HBC	Mr. Jens Rupp
CSCC (Cal Safety Compliance Corporation)	Ms. Soledad Mills
de Pury Pictet Turrettini & Cie. SA	Mr. Melchior de Muralt
EDF	Mr. Francois Georges
EDF	Mrs. Fabienne Cardot
Emirates Environmental Group	Mrs. Sudipa Bose
ENDESA	Mr. Angel Fraile
Generation Investment Management	Ms. Lila Preston
Global Compact Network - Morocco	Mr. Saad Filali Meknassi
Global Compact Network - Spain	Ms. Isabel Garro
Global Compact Network - Argentina	Mr. Flavio Fuertes
Global Compact Office	Mr. Jeff Senne
Global Compact Office	Ms. Elenore Kopera
Global Compact Office	Mr. Oliver Johner
Global Reporting Initiative	Mr. Damir Dragicevic
Global Reporting Initiative	Ms. Alyson Slater
Guile Engagement Team	Mr. Fritz Brugger
Guile Engagement Team	Mr. Gilles Carbonnier
Holcim	Mrs. Anne Gambling
LEGO Group	Mr. David Hartz
Lincoln Center for Ethics in Global Management	Mr. Greg Unruh
Lincoln Center for Ethics in Global Management	Ms. Stephanie Schlecht
Littlewoods	Mr. Michael Spenley
Musgrave Group Ireland	Mr. John Curran
Nestle S.A.	Ms. Hilary Parsons
Novozymes	Mr. Michael Pedersen
Petrobras	Mrs. Ana Paula Grether M. Carvalho
PricewaterhouseCoopers	Mr. Richard Golding
PricewaterhouseCoopers	Mr. Markus Nothiger
Repsol YPF	Mr. José Manuel Sin Cabrero
Sasol Ltd. South Africa	Mr. Stiaan Wandrag
Senior Advisor to the Global Compact	Mr. Claude Fussler
SustentaRSE	Mr. Maia Seeger
Telecom Italia	Mr. Giacomo Cosimo Befo