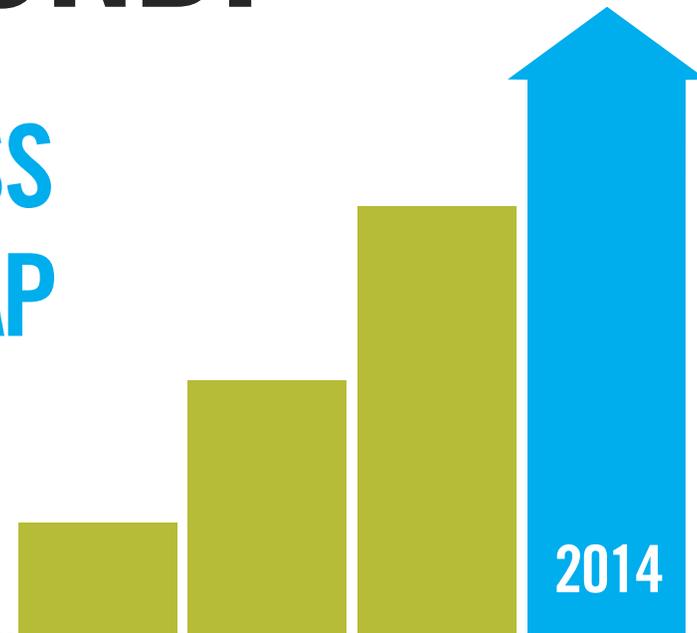


# GAINING GROUND:

## CORPORATE PROGRESS ON THE CERES ROADMAP FOR SUSTAINABILITY

Executive Summary



A JOINT REPORT BY CERES AND SUSTAINALYTICS



Explore additional findings at  
[www.ceres.org/gainingground](http://www.ceres.org/gainingground)

# Acknowledgements

## REPORT PARTNERS

**Ceres** is a non-profit organization advocating for sustainability leadership. We mobilize 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** is an award-winning provider of environmental, social, and governance research and analysis. We support investors around the world with the development and implementation of responsible investment strategies. Sustainalytics also partners with institutional investors that integrate ESG information and assessments into their investment decisions.

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To view the Full Report go to: [www.ceres.org/gainingground](https://www.ceres.org/gainingground)

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## FOR MORE INFORMATION, CONTACT:

### Andrea Moffat

Vice President, Corporate Programs  
Ceres  
[moffat@ceres.org](mailto:moffat@ceres.org)

### Simon MacMahon

Global Director, Advisory Services  
Sustainalytics  
[simon.macmahon@sustainalytics.com](mailto:simon.macmahon@sustainalytics.com)

## Letter from the Presidents

In 2010, Ceres released *The 21<sup>st</sup> Century Corporation: The Ceres Roadmap for Sustainability* with 20 expectations in the areas of governance, stakeholder engagement, disclosure and performance that, if met, would transform companies into truly sustainable enterprises.

We called it a “roadmap” not only because it provides guidance, but also because we understood that sustainability is a journey for any company. *The Roadmap* is a resource to help companies visualize and re-engineer themselves for success in a world beset with unprecedented environmental and social challenges that threaten the global economy and local communities.

In 2012, Ceres and Sustainalytics partnered to evaluate how 600 U.S. companies were performing against the *Roadmap* expectations. The result was *The Road to 2020: Corporate Progress on the Ceres Roadmap for Sustainability*. We found that while there were small pockets of corporate sustainability leadership, the vast majority of companies were taking only small, incremental steps. Sustainability efforts were generally inconsistent and peripheral when they needed to be central to the company’s mission and integrated across all aspects of a company’s business. We concluded that, “sustainability has yet to gain traction at anywhere near the scale and speed needed if the *Roadmap* expectations are to be widely met by 2020.”

In the context of today’s intensifying sustainability challenges we are now unveiling a second evaluation of how 613 U.S. companies are performing on the *Ceres Roadmap*. We found that many companies are gaining ground with modest overall improvement. But given the acceleration of environmental and social challenges globally—floods, droughts and workplace tragedies, among them—corporate actions and solutions are not keeping pace with the required level of change.

***In some cases, companies have substantially accelerated and broadened their sustainability efforts. These companies are providing real leadership and demonstrating that sustainability isn’t a luxury, but rather an essential strategy for building long-term shareholder value.***

In some cases, companies have substantially accelerated and broadened their sustainability efforts. These companies are providing real leadership and demonstrating that sustainability isn’t a luxury, but rather an essential strategy for building long-term shareholder value. Unfortunately, many companies are just beginning their sustainability journeys. It is imperative that many more companies shift from being reactive to proactive in embracing the sustainability challenges that lie ahead. The need for investors, businesses, NGOs and other stakeholders to fully engage in the essential work of creating a sustainable economy has never been more urgent.

There is a world of opportunity that awaits businesses that act with full vigor in preparing for the complex environmental and social challenges we face. Those that embrace the expectations of the *Roadmap* will be best positioned to thrive in the rapidly changing, resource-constrained 21<sup>st</sup> century economy.



**Mindy S. Lubber**  
President and CEO of Ceres



**Michael Jantzi**  
CEO of Sustainalytics

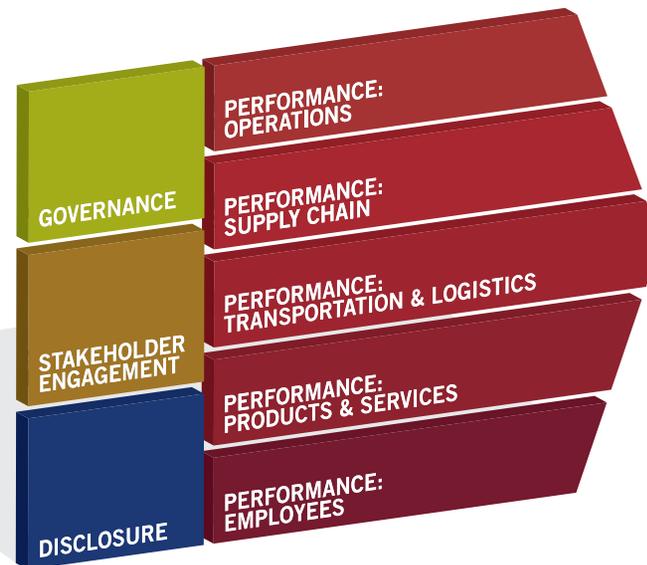


## CORPORATE PROGRESS ON THE CERES ROADMAP FOR SUSTAINABILITY

The scientific and economic realities facing corporations today have shifted substantially from even just a decade ago. From the risks posed to operations and the supply chain due to a changing climate, to an increasingly resource-constrained world with a growing population, to mounting human rights abuses—finding solutions to these business challenges will require collaboration, innovation and transformation.

This report, *Gaining Ground: Corporate Progress on the Ceres Roadmap for Sustainability*, evaluates how well 613 of the largest, publicly traded U.S. companies are integrating sustainability into their business systems and decision-making. The report—a collaboration between Ceres and Sustainalytics—assesses corporate progress across the four strategic areas first outlined in 2010 in the *Ceres Roadmap for Sustainability*: Governance, Stakeholder Engagement, Disclosure and Performance.

Ceres and Sustainalytics last evaluated these companies in the 2012 report, *The Road to 2020*, where companies were placed into one of four performance “tiers.” Two years later, the *Gaining Ground* report reveals that while there is progress being made by an increasing number of companies and sectors, we are still not seeing the speed of change that is required—or the scale of innovation that is possible. Incremental progress in tackling global climate change and other sustainability threats is simply not enough.



# KEY FINDINGS

## Leadership and Responsibility Starts at the Top

The ultimate responsibility for a company's direction, accountability and success comes from its board of directors and top-level executives—this is also where leadership for sustainability strategy and performance must originate.

### ➔ Boards of Directors are not taking enough responsibility for overseeing sustainability efforts.

Thirty-two percent (198) of the 613 companies' boards of directors formally oversee sustainability performance—up from 28 percent in 2012.

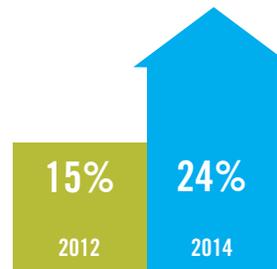
**Industry insight:** The Utilities and Materials sectors, with their high exposure to environmental and social risks, and environmental, health and safety regulatory compliance obligations, continued to lead among their peers.

### ➔ A growing number of companies are incorporating sustainability performance into executive compensation packages.

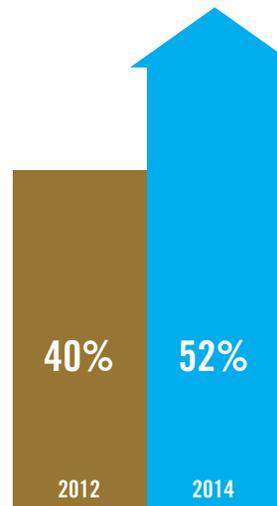
Twenty-four percent of companies (146) link executive compensation to sustainability performance—up from 15 percent in 2012. Yet only 3 percent (19 companies) link executive compensation to voluntary sustainability performance targets, such as greenhouse gas (GHG) emissions reductions.

**Company leadership:** At **Alcoa**, 20 percent of executive cash compensation is tied to safety, environmental stewardship (including GHG reductions and energy efficiency) and diversity goals.

## Executive Compensation Tied to Sustainability Performance



## Investor Engagement



Click on a graph to explore the interactive data online.

## Engagement with Stakeholders is Critical to Success

From investors to the companies' employees, more corporations are seeing the value of formally engaging stakeholders around the world to maximize sustainability efforts and drive meaningful results. Leading companies are looking to gain recognition from investors for their sustainability actions, inspire their workforces by integrating sustainability into the company culture, and incorporate the insights of external stakeholders into decision-making processes.

### ➔ Companies are increasingly engaging investors on sustainability issues.

Fifty-two percent (319 companies) are engaging investors on sustainability issues, up from 40 percent in 2012. The three percent (20 companies) in Tier 1 are using multiple tactics to engage investors including the integration of sustainability information into mainstream investor communications, highlighting sustainability performance and innovations at annual meetings, and directly engaging with shareholders on sustainability topics.

**Company leadership:** **PepsiCo** actively engages with investors by presenting its sustainability strategy and goals during its annual shareholder meeting. The company also identifies and discloses climate change, water scarcity and public health issues as core sustainability challenges in its annual financial filings.

➔ **Stakeholders are not consistently involved in the sustainability planning process.**

Only 36 percent of companies (219)—up from 29 percent in 2012—are disclosing information on how they formally engage stakeholders on sustainability issues. The seven percent (45 companies) in Tier 1 engage stakeholders in the materiality assessment process and disclose the insights gained from stakeholders.

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**Industry insight:** The Food & Beverage sector demonstrates the strongest commitment to stakeholder engagement, with 46 percent of companies in the sector achieving Tier 1 or Tier 2 performance.

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➔ **More companies are actively engaging employees on sustainability issues.**

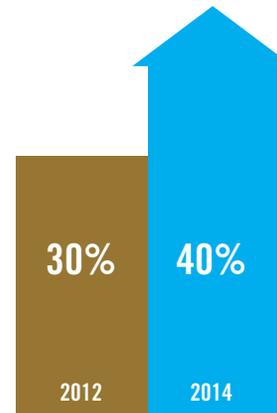
Forty percent (248 companies) have some programs in place to engage employees on sustainability issues—an increase from 30 percent in 2012. The six percent (37 companies) in Tier 1 go further by systematically embedding sustainability into company-wide employee engagement.

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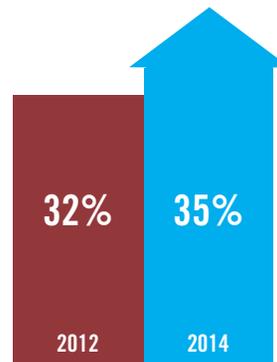
**Company leadership:** **Intel** provides training to help employees consider sustainability in business decision-making, and incentivizes its employees by linking compensation directly with sustainability performance targets.

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**Employee Engagement**



**Time-Bound Targets to Reduce GHG Emissions**



Click on a graph to explore the interactive data online.

**Corporate Accountability Drives Social and Environmental Performance Improvements**

Companies that perform well on governance, stakeholder engagement and disclosure, such as **Baxter**, **EMC** and **Starbucks**, are also leaders in driving sustainable performance improvements. Tackling sustainability helps companies reduce costs in a carbon-constrained world, modify business practices to require less water, and avoid conflicts in supply chains. Integrating sustainability into procurement and sourcing decisions is an effective tool for addressing these risks, and it is essential that companies engage their suppliers through dialogue, training, and capacity building. While 33 percent of companies (205) have established some form of program to engage suppliers on sustainability performance, just 14 percent have formal supply chain engagement programs in place and fall into Tiers 1 and 2.

➔ **While many companies are taking action to reduce GHG emissions, few have set time-bound targets.**

More than two-thirds of the companies evaluated (438) are taking steps to reduce GHG emissions, but only 35 percent (212 companies) have established time-bound targets for such reductions. This is an increase from 32 percent in 2012. In terms of renewable energy, 37 percent of companies (224 companies) have implemented a program, compared to 35 percent in 2012. Yet only six percent have quantitative targets to increase renewable energy sourcing.

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**Industry insight:** More than half of the companies falling into Tier 1 for this expectation are Technology companies, including **Hewlett Packard**, which has not only set time-bound targets for reducing GHG emissions and increasing renewable energy sourcing, but also sources more than 10 percent of its primary energy needs from renewable sources. Companies in the Oil & Gas and Energy Service sectors lag behind their peers. Only 13 percent of Oil & Gas companies (4 of the 30) and just nine percent of Energy Service companies (2 of the 23) have adopted formal, time-bound GHG emission reduction targets.

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➔ **Companies are not doing enough to address water risks, especially in stressed regions.**

Of the 103 water-intensive companies evaluated, 50 percent assess water-related business risks, a slight decline from the 55 percent in 2012. Only 26 percent (27 of 103 companies) are prioritizing efforts in water stressed regions.

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**Company leadership:** Since 2004, **The Coca-Cola Company** has improved the efficiency of its water use by 20 percent. However, as water risks intensify globally and investor and stakeholder expectations continue to grow, Coca-Cola identified the need for a rigorous third-party evaluation of its water management approach. Throughout 2012 and 2013, the company used the Ceres Aqua Gauge™ tool to assess the strengths and weaknesses of its water stewardship strategy and to inform new targets and goals. The company is also sharing the Aqua Gauge tool with suppliers and customers to help these partners improve their own water management.

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➔ **Additional innovation is needed to drive sustainable products and services.**

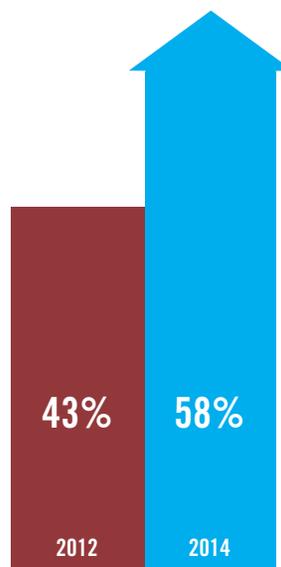
Of the 419 companies evaluated for this expectation, 14 percent (57 companies) have formal programs to invest in and promote sustainability products and services, compared to 10 percent in 2012.

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**Company leadership:** **Nike** integrates sustainable design across its product portfolio—including new product innovations such as the FlyKnit running shoe, which creates two-thirds less waste in production than its counterparts. Seeking to raise the industry bar, Nike created the MAKING app in 2013 allowing the data in its Materials Sustainability Index to be public. This lets designers from across the industry and beyond make more sustainable design decisions, and ultimately, lower-impact products.

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### Supplier Codes of Conduct



➔ **More companies are setting clear sustainability standards for suppliers.**

Fifty-eight percent (353 companies) have supplier codes of conduct that address human rights in supply chains, compared to 43 percent in 2012.

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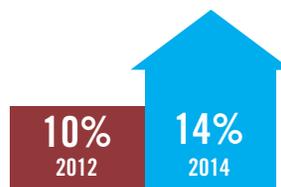
**Company leadership:** **Ford Motor Company** has established requirements for first tier suppliers. These requirements drive Ford's environmental and social expectations down its supply chain. Ford gathers information on supplier climate risks and GHG emissions and works with suppliers to establish GHG emissions reduction and energy efficiency targets.

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**Industry Insight:** To better understand how companies are addressing specific environmental and social challenges in their supply chain, *Gaining Ground* features two in-depth case studies examining the critical issues of forced labor and sustainable agriculture. While our analysis shows that companies and investors are increasingly aware of these challenges, many are just starting to get informed about how to address them. **Read more about our findings and recommendations at [www.ceres.org/gainingground](http://www.ceres.org/gainingground).**

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### Sustainable Products and Services



Click on a graph to explore the interactive data online.

# Investing in Sustainable Corporations

**Companies with the vision and strategies for integrating sustainability principles into all facets of operations are more likely to generate long-term shareholder value than those that do not. In fact, investors are increasingly integrating sustainability criteria into investment decisions, and are rewarding companies who engage shareholders on sustainability issues.**

This report evaluates the sustainability performance of 613 U.S. companies, which represent nearly 80 percent of the total market capitalization of all public companies in the country. The information here is critical for investors because it reveals how well prepared, or, in many cases, how poorly prepared, individual companies are to thrive in an economy being profoundly shaped by sustainability risks and opportunities.

In 2013, Ceres and the Investor Network on Climate Risk released *The 21<sup>st</sup> Century Investor: Ceres Blueprint for Sustainable Investing*, offering ten practical steps for integrating sustainability criteria into investment policies and decisions. *Gaining Ground: Corporate Progress on the Ceres Roadmap for Sustainability* will help investors with several of those steps, including:

## Identifying Sustainability Issues that are Material to the Fund

- ➔ This report shows which companies are engaging stakeholders and investors, and which ones are disclosing material issues.

## Establishing Engagement Strategies and Proxy Voting Guidelines Consistent with Sustainable Investment Goals

- ➔ The report provides sector analyses and company scorecards to support company engagement and proxy voting.
- ➔ Lead practice examples provide clear illustrations on what investors should expect of companies in their portfolios.
- ➔ The *Ceres Roadmap* may be referenced in proxy voting guidelines.

## Requiring Sustainable Investment Expertise in Manager and Consultant Selection

- ➔ The *Ceres Roadmap* framework and *Gaining Ground* analysis may be shared with asset managers as an input into their investment decision-making process and to help prepare for company engagements.

***“Environmental and other sustainability issues are core to business performance in the 21<sup>st</sup> century.”***

— Anne Stausboll, CEO of California Public Employees’ Retirement System (CalPERS)



Anne Stausboll  
CEO of CalPERS

### Investors are Integrating Sustainability Criteria into Investment Decisions

- ➔ Over 1,200 investors have signed on to the Principles for Responsible Investment<sup>1</sup>
- ➔ More than \$13.6 trillion (21.8 percent) of total assets managed professionally in Europe, the U.S., Canada, Asia, Japan, Australia and Africa incorporate environmental, social and governance (ESG) factors to some degree<sup>2</sup>
- ➔ Approximately \$3.74 trillion (11 percent) of assets under professional management in the U.S. are invested according to sustainable investing strategies<sup>3</sup>
- ➔ 417 ESG shareholder resolutions have been recorded this year so far<sup>4</sup>
- ➔ Sustainability information by financial data aggregators is more widely available. Bloomberg, for example, has seen 47.7 percent annual average growth in customers using ESG data since releasing it in 2008.<sup>5</sup>

### Investor Resources:



For more information on how *Gaining Ground* can be used to assist investors in implementing the *Ceres Blueprint for Sustainable Investing*, visit [www.ceres.org/gainingground/investors](http://www.ceres.org/gainingground/investors).

For additional information on how to incorporate Sustainalytics’ ESG research into your investment process and analysis, visit [www.sustainalytics.com](http://www.sustainalytics.com).

View the interactive online version of this report at [www.ceres.org/gainingground](http://www.ceres.org/gainingground) to access company scorecards and to learn more about how the companies in your own portfolio are performing on a range of sustainability issues.

1 Principles for Responsible Investment. “Signatories to the Principles for Responsible Investment.” Retrieved from: <http://www.unpri.org/signatories/signatories/> on April 2014.

2 Global Sustainable Investment Alliance (GSIA). “Global Sustainable Investment Review 2012.” January 28, 2013. Retrieved from: <http://gsiareview2012.gsi-alliance.org/pubData/source/Global%20Sustainable%20Investment%20Alliance.pdf>

3. Ibid

4 Welsh, Heidi and Passoff, Michael. “Proxy Preview 2014.” As You Sow, Proxy Impact and Sustainable Investments Institute. February 14, 2014. Retrieved from: <http://www.proxyreview.org/download-proxy-preview-2014/>

5 Bloomberg L.P. “2012 Sustainability Report.” July 24, 2013. Retrieved from: [http://www.bloomberg.com/bsustainable/wp-content/themes/wp\\_sustain13\\_theme/report/BloombergSustReport2012.pdf](http://www.bloomberg.com/bsustainable/wp-content/themes/wp_sustain13_theme/report/BloombergSustReport2012.pdf)

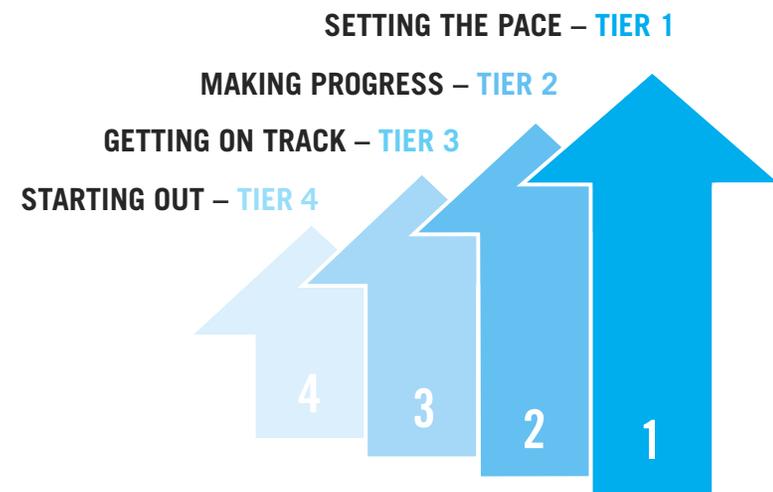
## Methodology Snapshot

This report evaluates how well 613 of the largest publicly traded companies in the U.S. are meeting the expectations outlined in the *Ceres Roadmap*. It is intended to allow companies to assess their performance against their peers and to see what businesses are doing across economic sectors. 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.

Sustainalytics' environmental, social and governance (ESG) research and analysis platform was leveraged as the basis for the assessment process. Ceres and Sustainalytics selected indicators from the Sustainalytics global ESG research platform as proxies to measure the expectations from the *Ceres Roadmap*, and developed additional customized indicators that would strengthen the assessment. Industry-specific weightings were assigned to address unique areas of impact and exposure. To ensure a broad cross-section of major publicly traded companies, those chosen had to be included in at least two of the following three major stock indices: the Russell 1000, the S&P 500, and the MSCI Domestic Markets Standard.

With respect to each key expectation of the *Roadmap* evaluated, companies were placed in a performance "tier." Those in Tier 1 are "setting the pace." Those in Tier 2 are "making progress." Those in Tier 3 are "getting on track." And those in Tier 4 are just "starting out."

To read the full methodology, learn about what was measured and explore the interactive online report, go to [www.ceres.org/gainingground](http://www.ceres.org/gainingground).



## Take Action

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 sustainability leadership?

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

The [online report](#) features interactive data and charts—useful tools for understanding the results, comparing the performance of peers within sectors, and identifying opportunities for taking action. The website also features additional analysis for eight priority sectors, and examples of leading practice by topic area. New this year is the “search by company” scorecard, which provides a snapshot of how the companies evaluated perform on each *Ceres Roadmap* expectation—allowing users to search by both company name and stock ticker.

Most importantly, *Gaining Ground* reaffirms the compelling case for faster, more comprehensive business action on sustainability. **The time to get started is now.**



Explore our full report with interactive data,  
sector-specific analysis, and company scorecards at  
[www.ceres.org/gainingground](http://www.ceres.org/gainingground)





Ceres  
99 Chauncy Street  
Boston, MA 02111  
T: 617-247-0700  
F: 617-267-5400

[www.ceres.org](http://www.ceres.org)



Sustainalytics  
24 School St. Suite 803  
Boston, MA USA 02108  
T: (+1) 617.603.3321

[www.sustainalytics.com](http://www.sustainalytics.com)

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