

*PwC's Corporate Responsibility Barometer reviews Finnish corporate responsibility from three perspectives: strategic corporate responsibility, management and reporting.*

# ***Fading Momentum***

## **PwC's Corporate Responsibility Barometer 2014**





**Anna Suomi**  
*PwC's Sustainability & Climate Change*

*Contact us to learn more about your company's performance in the latest Corporate Responsibility Barometer.*

***Further information on the publication and PwC's corporate responsibility services is available from:***

**Sirpa Juutinen**  
*Partner, Sustainability & Climate Change*  
puh. +358 40 578 2615

**Anna Suomi**  
*Manager, Sustainability & Climate Change*  
puh. +358 50 312 0906

**Jussi Nokkala**  
*Manager, Sustainability & Climate Change*  
puh. +358 50 354 8381

**PwC**  
*PO. Box 1015*  
*FI-00101 Helsinki*  
puh. +358 20 787 7000

# PwC's Corporate Responsibility Barometer 2014

## What is the Corporate Responsibility Barometer?

- the most extensive corporate responsibility study in Finland
- 564 companies assessed
- corporate responsibility information published by 164 companies analysed
- websites, corporate responsibility reports and annual reports assessed
- trends over the course of five years (2009–2013) can be gleaned from the information.

## Why is reading the Corporate Responsibility Barometer worthwhile?

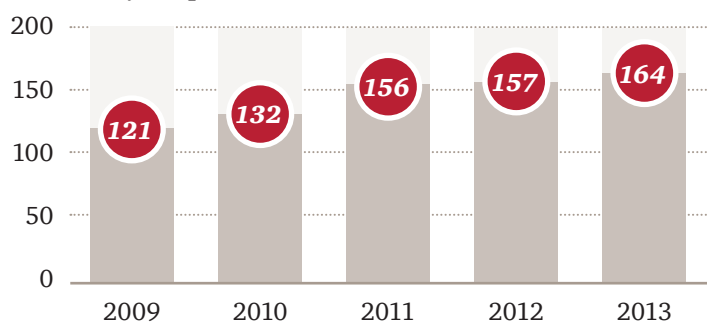
### The Barometer

- provides a snapshot of the current state of Finnish companies' corporate responsibility
- reflects current trends in corporate responsibility
- highlights interesting topics and developments
- maintains a discussion on the quality of corporate responsibility management and reporting
- challenges companies to develop.

A total of 564 companies and organisations were assessed for the barometer: all 500 companies listed in the magazine Talouselämä's annual list of Finland's largest companies\* and 64 other companies or public organisations.

**Jussi Nokkala**  
PwC's Sustainability & Climate Change

Companies reporting on corporate responsibility in Finland  
(number of companies)



\*Every year, Talouselämä lists Finland's 500 largest companies based on net sales.



# Introduction



Our Corporate Responsibility Barometer has evaluated the state of Finnish corporate responsibility since 2009. In five years' time, we have seen big leaps in development, ordinary steps forward, but also stagnation.

Over the course of a couple of years, corporate responsibility became a matter of interest to management, and many companies defined their most important and material corporate responsibility issues. Forerunner companies also started to find links to their business strategy. Year after year, the supply chains of an increasing number of companies were expected to commit to responsibility. The latest leap forward is seen in this barometer, as many reports also include a tax footprint.

However, not very much other development can be seen compared to last year, which raises questions. Can the reason be found in economic uncertainty, the indefinite nature of the content of corporate responsibility or the complexity of the challenges encountered? Are the methods and resources used too lightweight or do the objectives and views of corporate responsibility professionals and business management not meet? Do we need a threat of regulation, such as the changes on the way concerning corporate responsibility reporting obligations, or chastise-

ment by the media, which has taken place in the tax debate? I would like to assert that corporate responsibility in Finland is still primarily reactive and focused on risk management, and additionally does not strongly utilise business opportunities.

However, this assertion does not do all companies justice, as a group of about twenty companies distinguishes themselves from among the 164 companies reporting on their corporate responsibility. They manage corporate responsibility systematically, with determination, and seek added value from sustainability. The danger is that this group will pull ahead even further in the future: it is easy to build new things on a solid foundation, and it is not necessary to bounce around according to external stimuli with the development of corporate responsibility. The direction has already been chosen in the strategy, the company progresses consistently with corporate responsibility and results are also achieved. Now is a good time to choose the group to which you want to belong. It is time to bring the matter up in companies' boards of directors and ensure that the goal does not escape too far.

**Sirpa Juutinen**  
*Partner, PwC's Sustainability & Climate Change*

# Key results

## **1. The opportunities arising from sustainability remain unutilised in business operations**

Addressing sustainability challenges, the utilisation of the business opportunities of sustainability and setting quantitative objectives have not developed at the same pace as previous years.

The corporate responsibility aspect is strengthening in procurement and the transparency of tax reporting, but remains unutilised in the development of new business opportunities. Companies have identified business opportunities arising from sustainability trends, but they primarily focus on compliance and meeting the new reporting requirements.

## **2. The company's sustainability performance is reflected in the supply chain**

In a large part of companies, management of the supply chain is not at the same level as management of other areas of sustainability. Development has taken place in the way responsibility requirements are set for suppliers, and

companies also monitor how the requirements are complied with. However, the results of monitoring the supply chain are hardly ever reported on. Companies often manage human rights only in their own operations within the framework of national legislation, and management is limited to the first tier in the supply chain. Human rights are only slowly integrated into management systems, a fact which is seen in the demands by stakeholders to create international regulations with which companies would need to comply.

## **3. Compliance guides reporting**

Approximately twenty companies have started to apply the new Global Reporting Initiative (GRI) G4 guidelines in their corporate responsibility reporting. However, the majority of the reporting companies have held on to the previous versions of the GRI. The growth in the number of Finnish GRI reporters that continued for a number of years has now stopped. The factors behind this development can be the schedule for the adoption of the G4 guidelines, the

developing reporting requirements in the EU, and integrated reporting. Focusing on material issues is not yet seen in the length of the reports. The adoption of online reporting has led to even more extensive reports.

## **4. Tax reporting has tripled**

Reporting on the tax footprint has clearly shown an increase over the last year. There are significant differences in the content of reports and the manner of reporting. This can be explained in part by companies' differing operating environments; on the other hand, the obligations of state-owned companies may have contributed to the fact that reporting on companies' tax footprint has become more common. So far, the comparability of reporting is weak.

## Stronger presence of sustainability aspects in the strategy process

Based on this year's results, the strategic aspect of corporate responsibility seems to focus strongly on risk management. Companies react to challenges in their operating environment, and most companies have not yet become aware of the importance of sustainability as a business driver.

Forerunners generate new cash flow from sustainability by developing new markets or services. In a difficult market situation, sustainability may maintain customers' willingness to purchase or pay. Investments in material or energy efficiency and the well-being of personnel bring cost savings. The impact is multiplied when cost saving measures are implemented throughout the supply chain.

Sustainability aspects must be included more prominently in all phases of the strategy process. Strategy work should cover sustainability-related risks and

opportunities in the operating environment. In the preparation phase of business strategy, the role of sustainability as a whole is determined, and in the implementation phase, sustainability is processed together with the entire personnel, and its progress is monitored.

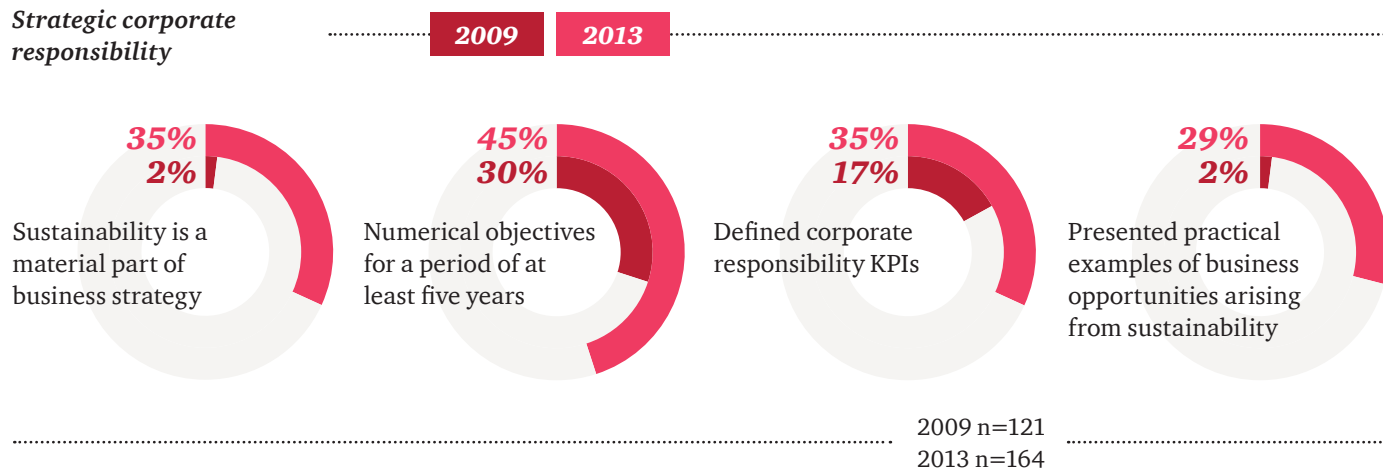
It is worthwhile to take into account any weak signals from the operating environment arising from sustainability when business strategy is prepared. You should not close your eyes to the challenges of sustainable development; rather, you should be able to deal with even difficult issues openly. In addition to mere risk management, it is worthwhile reviewing sustainability from the point of view of value creation and cost savings.

**Johanna Raynal**

*PwC's Sustainability & Climate Change*

“In addition to risk management, it is worthwhile to review corporate responsibility from the point of view of value creation and cost savings.”

### Strategic corporate responsibility



## Sustainability objectives are rarely used as criteria for remuneration

When the material sustainability issues for business and stakeholders have been defined – or updated in the case of many companies – it is time for those companies to implement them. Sustainability objectives and performance indicators must materialise in day-to-day management. Without persistent work, preparation of detailed plans and continuous monitoring of objectives, material aspects easily remain merely sentences in a matrix.

The clear definition of sustainability objectives, responsibilities and roles in every area makes implementation easier. When roles and responsibilities have been defined and also internalised, everyone can shoulder their responsibility for the objectives and any

successes and failures in them. Everyone knows the kind of contributions that companies remunerate and the methods of operation that are encouraged. The internalisation of responsibilities and objectives is crucial when seeking to include sustainability as a genuine part of business in a manner that generates added value.

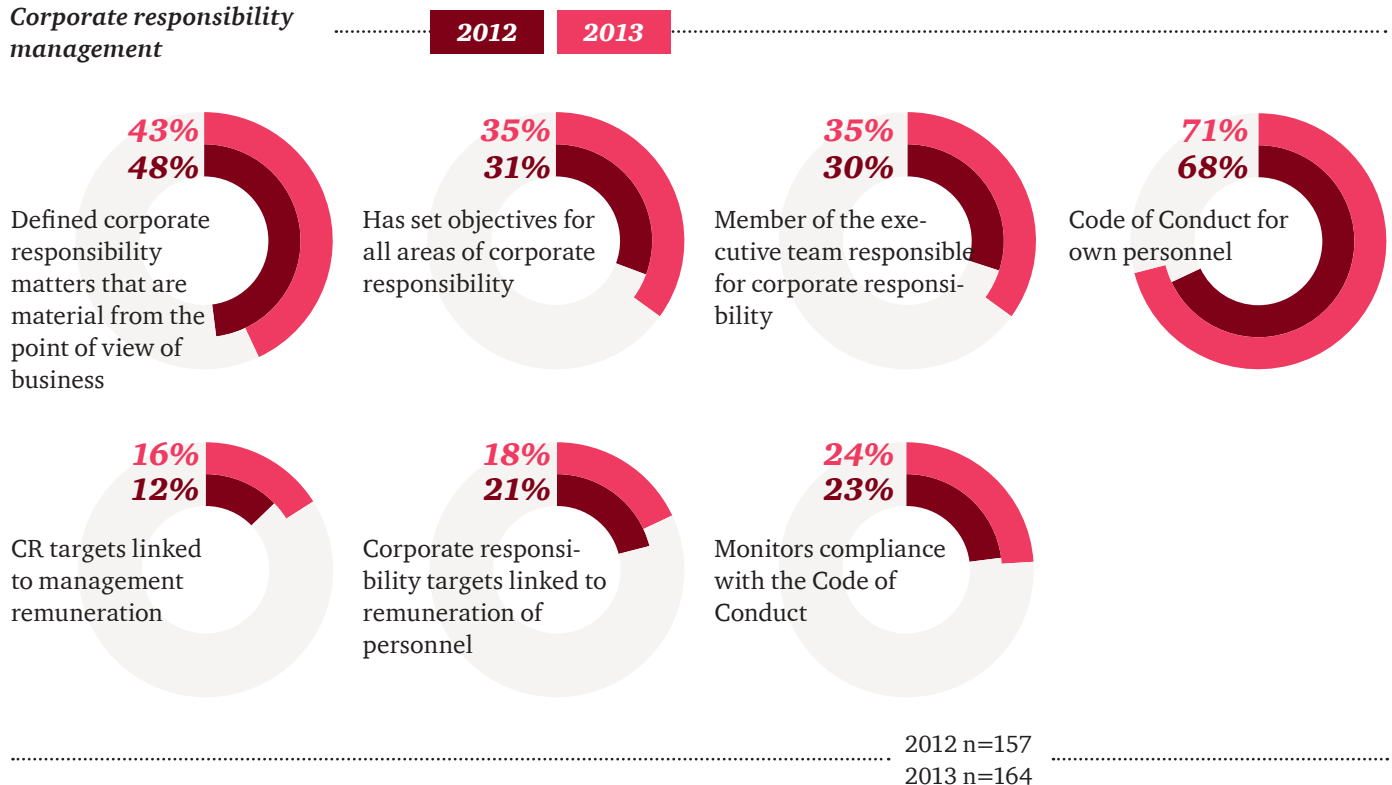
Usually you get what you remunerate for. The level of personal commitment and internalisation often rises to its peak when the achievement of sustainability objectives affects an individual's or the team's remuneration. Responsibility objectives are still only rarely used in companies for remunerating the management and personnel or as a basis for incentives. A change in this

**“***The internalisation of responsibilities and objectives is crucial when seeking to include responsibility as a genuine part of business and the development of its value.***”**

would surely contribute to the implementation of essential matters at the practical level and introduce new indicators and key figures in parallel to the traditional key environmental and personnel figures. Note, however, that it is not easy to create indicators that can be used as criteria for remuneration.

**Anna Suomi**  
PwC's Sustainability & Climate Change

### Corporate responsibility management



## Company's sustainability performance is reflected in the supply chain

In the current operating environment, supply chains are complicated and include multiple tiers, which means that the role of procurement is emphasised in companies' sustainability performance. In our rapidly reacting world, a company is also evaluated on the basis of the responsibility of its supply chain. Discovery of repeating shortcomings regarding the same issues in supply chains, such as working conditions and child labour, shows that companies experience challenges in directing their measures and monitoring the results.

Companies should examine the overall picture of, and risks involved in, their supply chain and set qualitative and quantitative objectives for it. In some Finnish companies, the systematic working method of responsible supply chain management has become rooted as a part of the operating methods, objectives and monitoring of the supply chain. However, many companies are still at an initial stage, and the management of the supply chain is not at the same level as the management of other areas of sustainability.

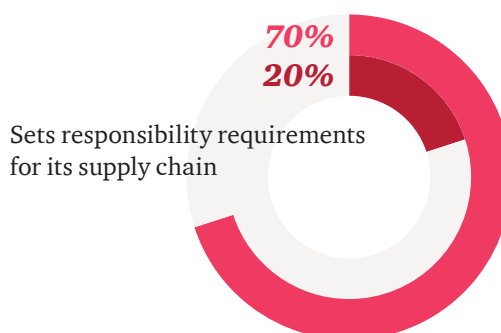
Positive development has taken place with regard to the way sustainability requirements are set. Companies also monitor compliance with such requirements. However, the results of monitoring the supply chain are rarely reported upon.

**Anne-Maria Flanagan**  
PwC's Sustainability & Climate Change

Management of the supply chain

2009

2013



Sets responsibility requirements for its supply chain

2009 n=121  
2013 n=164

## Human rights issues are emphasised in the supply chain

Companies often manage human rights only in their own operations within the framework of national legislation, and management is limited to the first tier in the supply chain. Stakeholders expect more from companies, and bring up human rights problems in the entire supply chain.

A global consensus is being formed concerning the responsibility of companies to respect human rights. The UN Guiding Principles on Business and Human Rights have affected many sustainability guidelines, such as the OECD's Guidelines for Multinational Enterprises. According to these

principles, companies shall identify adverse human rights impacts in their supply chains and seek to prevent and mitigate their realisation.

Companies shall also communicate their management of human rights and adopt processes to remedy adverse impacts. However, human rights are only slowly becoming integrated in management systems. This can be seen in the frustration of stakeholders and in their demands to create increasingly tighter international regulation that would be obligatory for companies.

**Suvi Kuusi**  
PwC's Sustainability & Climate Change





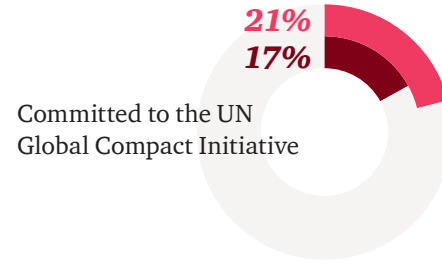
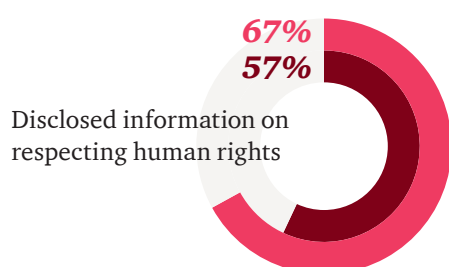
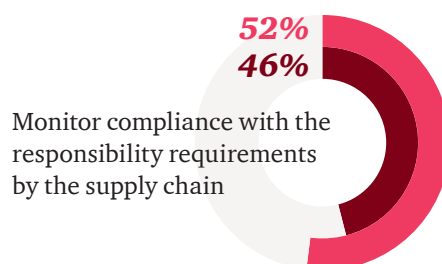
Of the companies evaluated for the barometer:

- 34 are committed to the UN's Global Compact Initiative
- 27 report that they are following the OECD Guidelines for Multinational Enterprises
- 8 apply the UN Guiding Principles on Business and Human Rights ("the Ruggie Principles")
- 11 have used ISO 26000 as a guide to integrate social responsibility into their values and practices.

### Supply chain management and human rights

2012

2013



2012 n=157  
2013 n=164

## Do the G4 Guidelines guide reporting in the right direction?

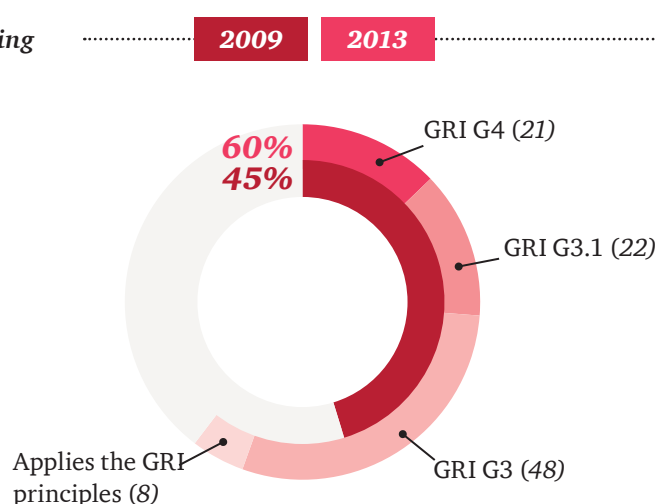
The GRI G4 reporting guidelines were published in May 2013. In Finland, approximately twenty companies have adopted the guidelines in their CR reporting. However, the majority of companies are still considering when and in what scope the transition will be worthwhile. Some are re-considering the reporting framework altogether.

The reporting guidelines are hoped to guide companies towards more concise responsibility reports that are easier to read and focus on material issues. The contrary seems to be taking place. The content of reports has rather expanded, even though the guidelines instruct to focus on the most material impacts. It is still the reader's challenge to find and interpret what is material.

Reporting according to the guidelines is still looking for its final form. However, at the moment it seems that Finnish reporting is typically at the level of application of the guidelines, even though many companies declare that their report is prepared in accordance with the G4 Guidelines. The guidelines are unequivocal, but they have been interpreted in various ways. Therefore, the comparison of information is still difficult.

The key driver directing the development of reporting in Finland is compliance with regulations. Impacts are reported upon a great deal, but surpris-

GRI reporting



2009 n=121  
2013 n=164

ingly few concrete measures and results of responsibility work can be found in the reports. The requirements of the guidelines on the reporting of impacts are fulfilled, even though impacts are not managed in a target-oriented manner. The question arises of whether the reporting requirements call for the provision of information on the right matters.

**Casimir von Frenckell**  
PwC's Sustainability & Climate Change

“The content of reports has expanded, even though the G4 Guidelines instruct to focus on the most important effects of operations.”

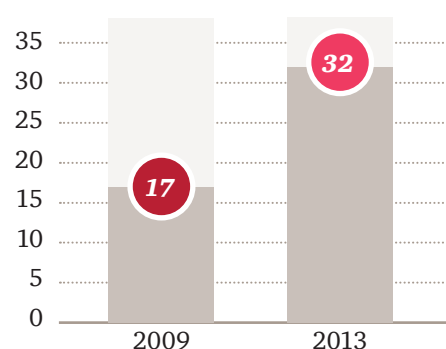
## The amendment to the Accounting Directive combines financial and non-financial information

The project to amend the EU Accounting Directive in order to publish non-financial information and information concerning diversity is progressing. The new requirements are concerned with the 2017 financial period.

Large listed companies with more than 500 employees, banks and insurance companies (in Finland approximately 85 companies) shall give an account of policies, risks and results of operations related to the environment, social responsibility and personnel, human rights and the prevention of corruption and bribery in the board of directors' report or as a separate report. If some area is not reported upon, the reason for this shall be explained ("comply or explain"). The auditor shall check the existence of the account or separate report; member states may require that the information is assured.

Large listed companies shall give a description of the board of directors'

*The amount of assurances of corporate responsibility information has almost doubled in five years*



2009 n=121  
2013 n=164

diversity policy in its corporate governance statement.

There is clearly a need for non-financial information. The new reporting requirements concretise these expectations. Financial information is not on its own sufficient to provide an overall view of the company's development,

results and status – other information is also needed. A balanced and considered whole of financial and non-financial information is also an asset, and to the advantage of the reporting company, and the whole organisation must play along to produce it.

**Maj-Lis Steiner**  
PwC's Sustainability & Climate Change

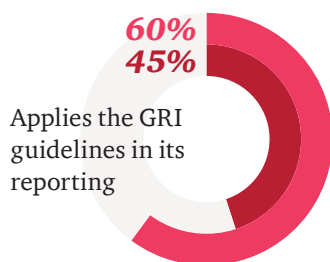
### Corporate responsibility reporting

2009

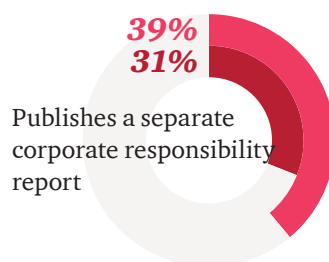
2013



Reports corporate responsibility information in the annual report



Applies the GRI guidelines in its reporting



Publishes a separate corporate responsibility report



Publishes an online report

2009 n=121  
2013 n=164

## Tax reporting is rapidly becoming more common

Reporting on the tax footprint has clearly increased from last year. There are significant differences in the content of reports and the manner of reporting. This can in part be explained naturally by very different business activities and operating environments of the companies; and this can be said whether the company only operates in Finland or on a multinational basis.

However, regardless of the different operating environments, the chosen ways of reporting are clearly different. Some companies have not included any figures in their reporting, but were satisfied with describing only the group's approach to tax planning or some disclosed only the total tax expense without opening the taxes included in it. At the other extreme, the

reporting company opened the content of the tax footprint in text form very illustratively, and this was supplemented by both graphic information and country-specific tables presented in euros by type of tax. In addition, the tax strategy was briefly opened, and the reasons for the location of subsidiaries in countries with low taxation were stated. On another example, what was particularly useful was the explanation of the key concepts used by the reporting company, which helps the reader to understand in more detail which taxes are concerned.

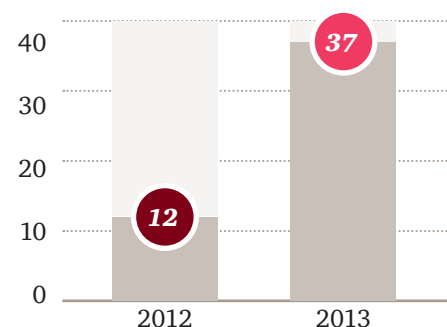
There are also clear differences in the reporting of, e.g., employer contributions. Some of the reporting companies include them in the tax footprint, some do not. Correspondingly, some very

clearly bring up difference between taxes that remain as the expenses of the reporting company and taxes that are withheld and paid to the Government separately. Some itemise taxes without showing which are taxes to be paid and which are taxes to be withheld and paid for.

At a glance, the comparability of tax footprint reports is very weak. Getting acquainted with the company's operations and key figures in a more detailed manner alongside the tax footprint already provides a better starting point for comparison, but this requires more in-depth familiarity with the matter.

**Petri Seppälä**  
PwC's Tax Services

*The number of companies reporting on their tax footprint has tripled within the last year*



	2013
Taxes are itemised by tax type	43%
Employer contributions and/or pay-as-you-earn taxes are included in the figures presented	38%
Taxes are reported by country	35%
Paid taxes and taxes accounted for are shown separately	27%
Only income taxes and a few primary taxes, e.g., property tax, are reported	22%
Taxes as a total sum without itemisation by tax type	16%
Taxes are reported by area	8%

n=37 Companies reporting tax details





# Corporate responsibility in Finland

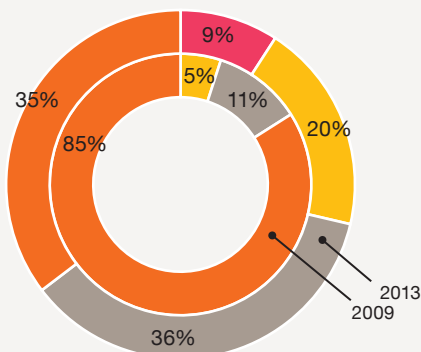
Finnish corporate responsibility has taken leaps forward over five years, particularly in the areas of strategic corporate responsibility and management. However, compared with last year, development has evened out in all areas.

The evaluated companies were divided into four categories on the basis of how the evaluation criteria were met:

- Platinum:  $\geq 75\%$  of the evaluation criteria
- Gold: 50–74,9%
- Silver: 25–49,9%
- Bronze:  $\leq 25\%$

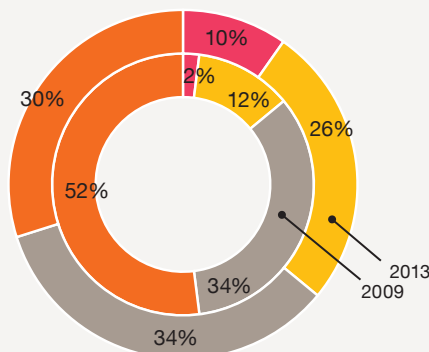
The Corporate Responsibility Barometer reviews the current state of corporate responsibility from three viewpoints:

*Strategic corporate responsibility*



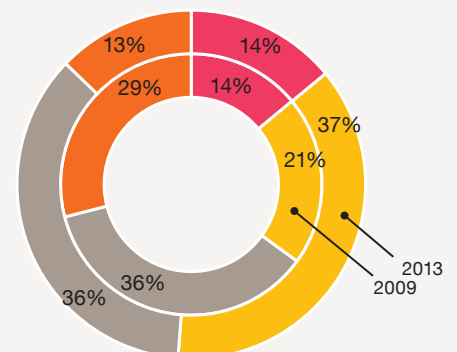
- Sustainability trends
- Sustainability as part of business strategy
- Sustainability-related risks and opportunities
- Long-term targets
- Key performance indicators of sustainability
- Corporate responsibility as a factor in management remuneration

*Corporate responsibility management*



- Materiality
- Guiding principles and policies
- Organisation and follow-up of corporate responsibility
- Targets and results
- Supply chain management and follow-up

*Corporate responsibility reporting*



- Balance and completeness
- Stakeholder cooperation
- Performance indicators (environmental, social and economic responsibility)
- Independent assurance of information

2009 n=121  
2013 n=164

## Our people



**Sirpa Juutinen**

Tel. +358 40 578 2615  
sirpa.juutinen@fi.pwc.com



**Maj-Lis Steiner**

Tel. +358 50 383 8637  
maj-lis.steiner@fi.pwc.com



**Anne-Maria Flanagan**

Tel. +358 40 679 5353  
anne-maria.flanagan@fi.pwc.com



**Johanna Raynal**

Tel. +358 40 152 5282  
johanna.raynal@fi.pwc.com



**Satu Man**

Tel. +358 40 526 1177  
satu.man@fi.pwc.com



**Jussi Nokkala**

Tel. +358 50 354 8381  
jussi.nokkala@fi.pwc.com



**Sari Pohja**

Tel. +358 40 186 2050  
sari.pohja@fi.pwc.com



**Anna Suomi**

Tel. +358 50 312 0906  
anna.suomi@fi.pwc.com



**Casimir von Frenckell**

Tel. +358 40 727 7271  
casimir.vonfrenckell@fi.pwc.com



**Suvi Kuusi**

Tel. +358 40 584 6665  
suvi.kuusi@fi.pwc.com



**Annika Virtanen**

Tel. +358 44 333 0253  
annika.virtanen@fi.pwc.com



**Ake Turunen**

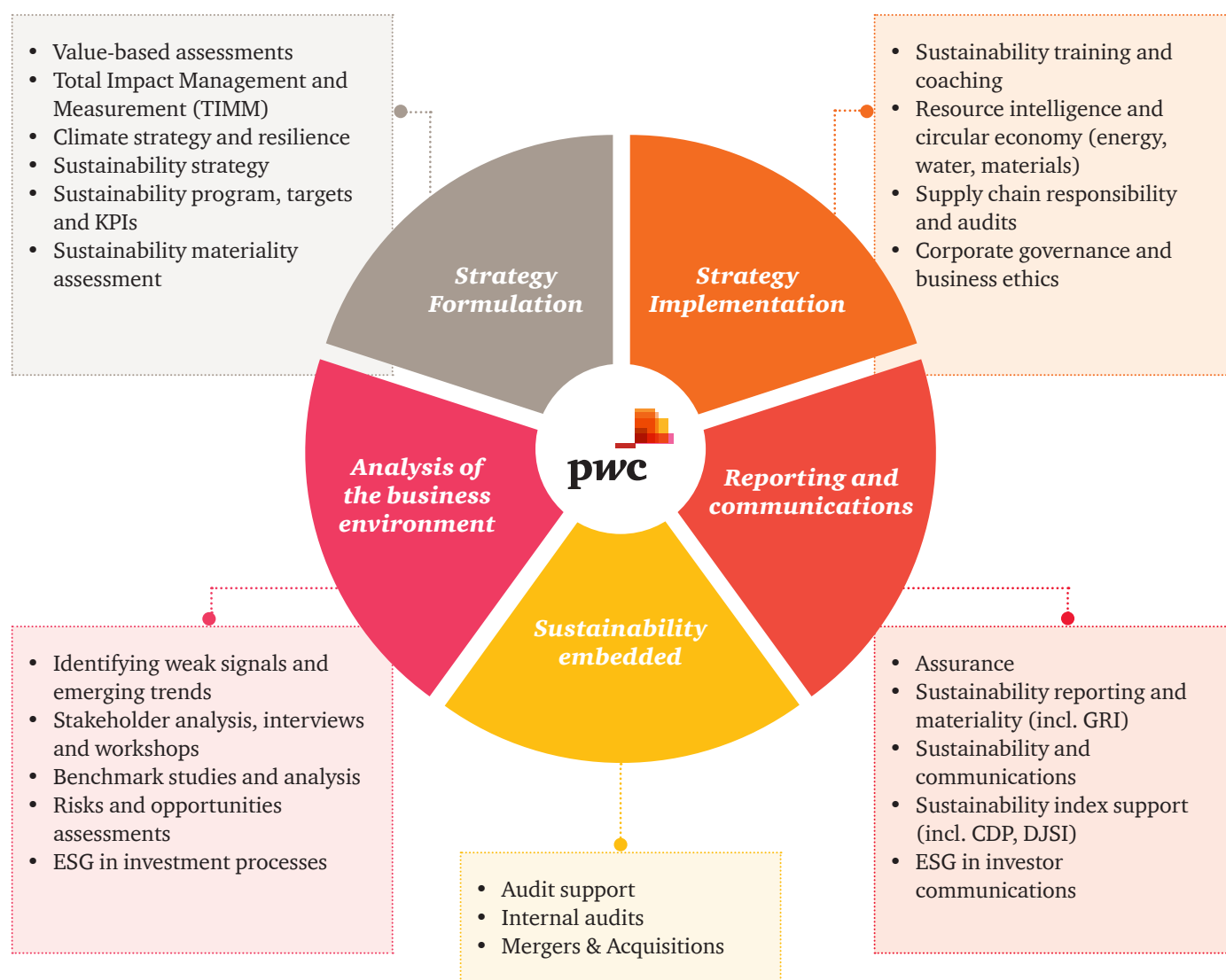
Tel. +358 40 515 0804  
ake.turunen@fi.pwc.com



**Hannele Hirvelä**

Tel. +358 400 473684  
hannele.hirvelä@fi.pwc.com

# Our Sustainability & Climate Change Services





PricewaterhouseCoopers Oy, P.O.Box 1015 (Itämerentori 2), FI-00101 Helsinki. Tel +358 20 787 7000.

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