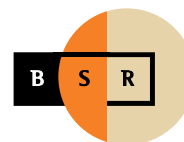
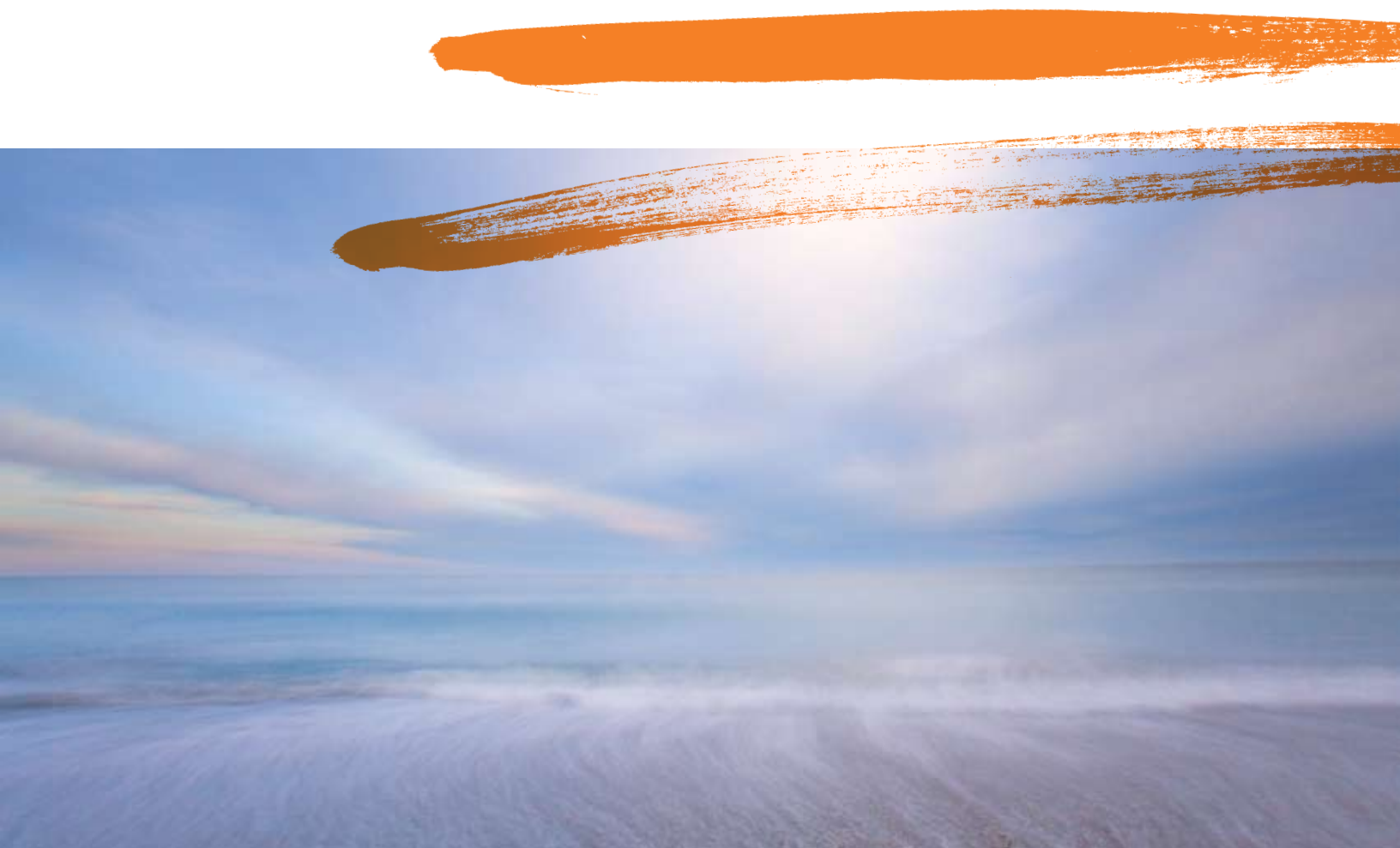


Our Role in

Designing a Sustainable Future



OUR MISSION

Build a more just and sustainable global economy by working with the business community.

Dear Reader,

We are extremely pleased to present BSR's first public report.

We have produced this report for several reasons. First, we want to act consistently with our principles and the advice that we provide our members, and offer a measure of transparency about our activities. Second, we want to use this opportunity to look at our activities to help us learn how we can be more successful in pursuing our mission. Finally, we hope to use this exercise to strengthen our learning about the process of reporting.

This report is different than the reports issued by our member companies. This is a deliberate choice, and reflects our desire to produce a report that is relevant given our activities, purpose, resources and impacts as an organization.

In this report, we aim to give a picture of how our strategies are designed to achieve BSR's mission of building a more just and sustainable global economy by working with the business community. We provide information on how we work, examples of some of our more significant projects, a bit of history about the organization, and a look ahead at how we aim to increase our impacts in the future. We also seek to give a glimpse of some of the challenges we face as an organization.

The content of the report is based on consideration of the principles established by the Global Reporting Initiative (GRI): materiality, sustainability context, stakeholder inclusiveness, and completeness. We have aimed to include stakeholder views in this report, which has been greatly enhanced by excellent feedback provided from two groups of member companies and BSR project partners who reviewed and commented on an initial draft.

This report comes at a time of immense growth and activity for BSR. In the past year and a half, the number of BSR staff based outside the United States has gone from three to 14 people; we have re-opened a Hong Kong office, and established an initial staff presence in Beijing and New York. We have invested in a growing research and development team whose original work has advanced broad understanding of key issues and significantly influenced numerous projects. We have augmented our environmental expertise and undertaken new initiatives on climate change, environmental markets and water. We have convened our members on several new initiatives, and established project partnerships with multiple NGOs, public institutions and think tanks. And the ranks of our member companies have grown and continue to diversify internationally.

Importantly, we have also begun efforts to measure our impacts more substantially. This remains a work in progress and is a challenge facing not only BSR, but also our member companies and our peer organizations working on critical corporate social responsibility (CSR) matters.

We look to the future with great excitement and also a sense that immensely important work remains to be done to make real progress on urgent social and environmental matters. We hope that this look back on our last year provides a window into our progress so far and inspires new energy to build a great record of success for the future. We envision this report as an opportunity for mutual learning, and we invite you to join us in an ongoing dialogue on the effectiveness of our efforts.



Mats Lederhausen, Chairman



Aron Cramer, President and CEO

A handwritten signature in black ink, appearing to read 'Mats Lederhausen'.

Mats Lederhausen
Chairman

A handwritten signature in black ink, appearing to read 'Aron Cramer'.

Aron Cramer
President and CEO



Taking the Pulse of Corporate Social Responsibility Today

An Interview with the President and CEO



“The ultimate test of our collective impact is achievement of the Millennium Development Goals.”

In August 2007, BSR's president and CEO Aron Cramer sat down for a discussion on the state of corporate social responsibility (CSR) and the role BSR plays in shaping the movement with Fortune reporter Marc Gunther.

Marc Gunther: What is the role of BSR in serving your members and advancing the CSR agenda?

Aron Cramer: We see our role in two mutually reinforcing ways. We help companies anticipate the changing intersection of business and society so that they can build sustainable businesses by integrating CSR into their strategies and operations. We do this through consulting, convening, research and trendspotting.

MG: How do you measure success in these areas?

AC: We measure both activity and impact. Activity is a lot easier to measure, such as the number of companies we help to establish policies, develop business strategies, issue CSR reports, engage in dialogue with civil society, and make genuine efforts to improve social and environmental performance.

We also aim to measure impact, which is more complex and important. This is a challenge for the entire CSR community, and something we are working with our members and others to improve in the coming years. In some ways, the ultimate test of our collective impact is achievement of the Millennium Development Goals. So, at a macro level, all of us working in this space have a long way to go. Despite this, we can point to some exciting

“Where CSR once was about bringing into companies external ideas that had been overlooked, it is now about looking from the inside out to develop more sustainable products and services.”

successes. Our teams have worked with mining companies and local communities to develop agreements on how operations can run for mutual benefit. Our China Training Initiative has led to improved labor conditions in many factories, some of them employing many thousands of workers. Our Clean Cargo Working Group has brought together consumer products companies and their sea carriers to reduce the emissions that come from getting a product from point of manufacture to point of sale. So there are many very tangible successes, even as there is more we must do.

MG: To what degree can business really push for sustainability when at a certain level the role of every company is to sell as much as possible of what it makes?

AC: Business has no choice but to push for sustainability because the economy may not last if it doesn't.

There are some encouraging signs that companies are getting more serious about embracing this challenge. Wal-Mart is catalyzing significant reductions in product packaging. Companies like DuPont are helping redirect their customers to efficient use of chemicals, decoupling profits from consumption levels. Nike is looking at how lean manufacturing techniques can improve working conditions.

Business also has untapped opportunities to educate the public about the consequences of consumption. Some big brands, like McDonald's and Coca-Cola, touch tens of millions of people around the world every day, and they are in a position to reframe the way consumers think and act. Many of them can help customers understand that responsible consumption does not have to result in lower living standards or satisfaction.

Sustainable consumption will grow in importance in the coming years, and I think that business can use its core strengths — developing new products and services and bringing them to market — to deliver the sustainable solutions we really need.

MG: Does all the attention to climate change today present any risks?

AC: While the attention is welcome — indeed critical — there are risks of oversimplification.

If we focus exclusively on environmental impacts, we won't apply the more systemic mindset that will determine our ability to minimize disruption. Climate is a human rights issue; it is a migration issue, and effective responses depend on filling governance gaps at national, regional and global levels. Another concern is that attention to climate diverts attention from other significant issues, like water and human rights more broadly. Finally, there is the risk of climate fatigue or cynicism if the public — and business — doesn't see energy efficiency, offsets and other climate policies having impacts.

MG: At the company level, what are some of the trends and issues that you see emerging?

AC: The first and most important trend is a focus on business integration. Where CSR once was about bringing into companies external ideas that had been overlooked, it is now about looking from the inside out to develop more sustainable products and services. The increased focus on materiality means that companies are looking at what they do, the questions that their industries face, and asking, “What impact does that have externally and how can we maximize the positive elements of it?”

“Companies have realized the limits of isolated examples of excellence and are growing more interested in systemic solutions.”

I also think that companies have realized the limits of isolated examples of excellence and are growing more interested in systemic solutions. It's no accident that some leading companies like BP and Levi Strauss have called for government action on issues that are very important to them, such as climate and human rights. That's the only way you can have an absolutely level playing field and also achieve the systemic results that people are looking for.

Third, the explosion of interest in managing supply chain issues — beyond the “usual suspects” in the apparel, footwear and toy companies — provides more optimism that long-lasting solutions may be near. We are working with automobile companies, pharmaceutical companies, agricultural companies and technology companies, and this has created an opening to move “beyond monitoring” and engage governments and workers in building sustainable solutions that integrate fair working conditions into supplier relationships.

Lastly, we are also heading into a period when companies' approaches to transparency and reporting will change. I don't believe that reporting by companies will be done five to 10 years from now the way it is today. Transparency will be addressed in a more dynamic way, drawing on changes in information technology, new ways people provide and receive information, and also bursting past growing fatigue with existing stakeholder engagement models.

MORE ON THE WEB

For the complete interview visit www.bsr.org/report



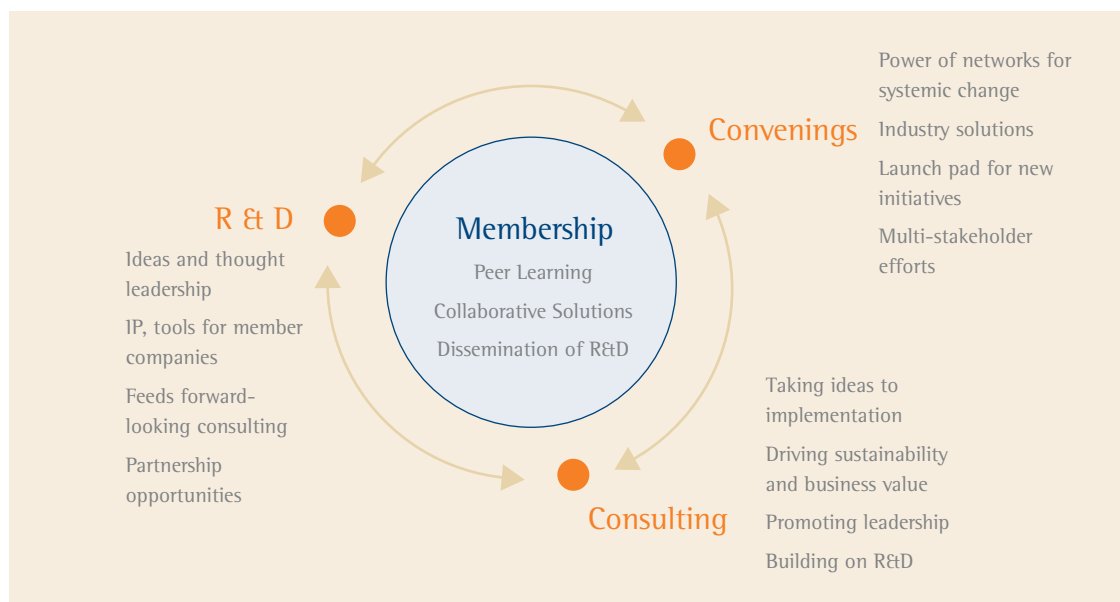
How BSR Works

The essence of BSR's mission has remained constant since our founding: to build a more just and sustainable global economy by working with the business community.

BSR works toward this mission by serving our member companies through:

1. Providing consulting services
2. Research and development of emerging trends and solutions
3. Convening members and stakeholders to catalyze innovative collaboration

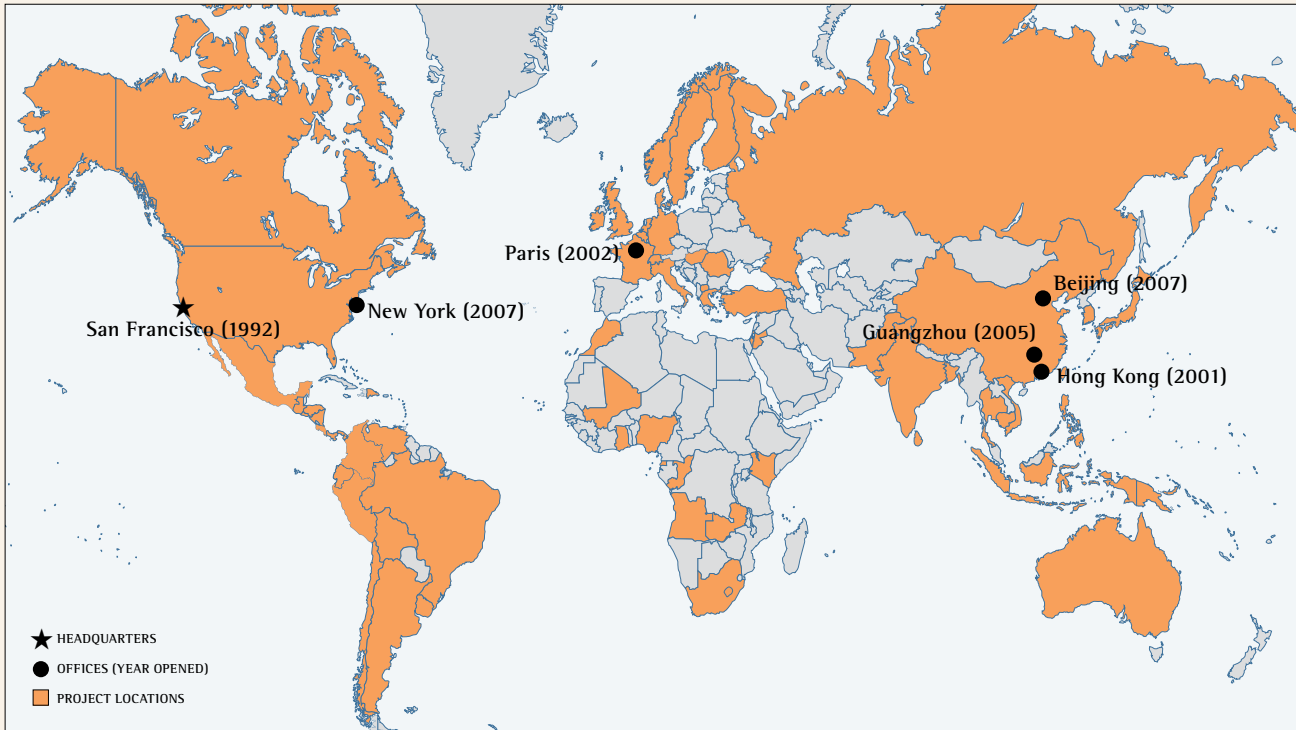
We envision CSR as a fully integrated element of core business practices. To help businesses achieve this goal, we maintain significant expertise in four areas that comprise the vast majority of our work: human rights, economic development, environment, and governance and accountability.



For BSR's organization chart visit www.bsr.org/report.

Growing Global Reach

BSR is a global organization headquartered in the United States, with offices in Asia (Beijing and Guangzhou, China, and Hong Kong) and Europe (Paris). BSR's staff, Board and member companies reflect a growing number of nationalities and geographic experience – staff outside the U.S. has grown from three to 14 in less than two years. BSR has conducted projects in more than 60 countries and has developed partnerships with multiple institutions.



Carbon Neutral Statement

In 2006, we began an analysis of our “carbon footprint” with our San Francisco headquarters and will move in subsequent years to assess the impacts of our Europe and China offices. BSR established an initial goal to be carbon neutral by the end of 2007. We chose to examine and offset against the three most material sources of our CO₂ emissions: our office, staff travel and the BSR Annual Conference.

We quickly learned that operating in a shared high-rise building renders a clear assessment of energy and water consumption difficult. Based on our portion of building usage, we estimate that our CO₂ footprint is 17,854 lbs per month and that our energy consumption is 12,000 KWh per month. We have purchased Green-e Certified Renewable Energy Certificates in the amount of 144MWh per year of National Wind. This will prevent the release 196,272 pounds of CO₂ and make our electrical consumption in the San Francisco office carbon neutral.

Like many organizations of our nature, travel is by far the largest part of our environmental footprint, and we continue to purchase offsets to mitigate that impact. Staff commuting, however, is well below national averages for CO₂ emissions, as a large percentage of our employees take public transportation, walk or bicycle to work. Finally, we are proud that our Annual Conference is carbon neutral as a result of both offsets (for staff and participant travel) and emissions reductions strategies.

Staff Commuting

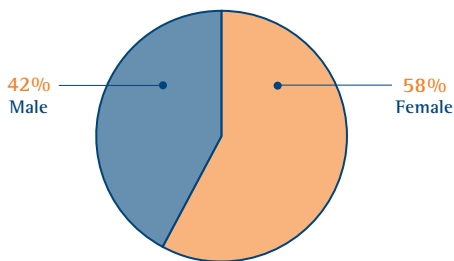
MODE OF TRANSIT	WEEKLY FREQUENCY	MILES TRAVELED EACH WAY (WEEKLY)
Auto (single)	21	109
Carpool	7	8
Train	83	169
Bus	50	45
Ferry	4	6
Bicycle	16	25
Walk	59	11
Telecommute	16	0

Our Staff

We have built a staff with diverse experiences, skills and perspectives. Our staff tend to be seriously dedicated to our mission and thrive in a fast-paced, entrepreneurial non-profit organization. They have worked in all parts of the world and come from a mix of corporate, NGO, academic and other professional backgrounds. We believe that this mix is both best suited to the ever-changing nature of our work and reflective of our commitment to diversity.

Our ability to attract and retain people who flourish in this environment is critical to our success, and we continue to look for ways to improve in this area. In staffing a rapidly growing organization in a changing environment, we have had staff turnover of more than 20 percent in recent years. We are also working hard to build a team that communicates effectively, and with a common culture, as we become a more global, dispersed organization. Like many organizations, we also seek to support work-life balance amidst staff that is committed to its work, which involves considerable travel. We also are aiming to build a team that not only includes people dedicated to our mission, but also brings the management expertise needed to develop staff and implement sophisticated business processes. To measure our progress on these topics, we will complete by the end of 2007 a baseline employee engagement survey.

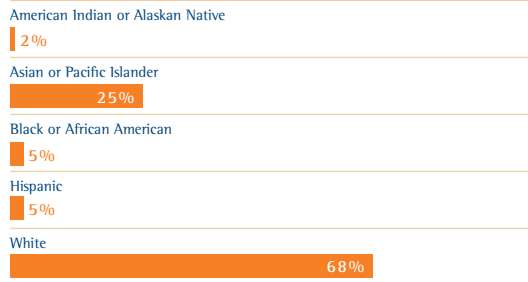
Gender



Diversity at BSR

We recognize that there are many accepted standards for reporting diversity. We value this issue highly and we are learning how to be mindful of both the issue itself and how it is reported. For now, we have chosen to address the issue of diversity here by reporting on our staff composition in the following categories: nationalities, languages spoken and race (for the U.S.-based staff only, using U.S. Census categories).

Race*



*Total exceeds 100% due to option of selecting more than one category. U.S.-based staff.

Nationalities

American	Chinese	German	Swiss
British	Dutch	Indian	
Canadian	Filipino	Pakistani	
Chilean	French	Russian	

Languages Spoken

Cantonese	Hindi	Spanish
Dutch	Italian	Tagalog
English	Japanese	Thai
French	Mandarin	Urdu
German	Portuguese	Vietnamese
Guarani	Russian	

Membership

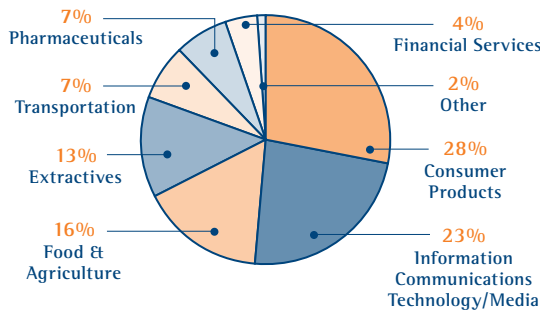
Our membership of more than 240 companies centers on Global 1000 enterprises and their supply chain partners. This approach reflects our belief that such companies present the optimal opportunity for BSR to achieve its mission.

Open Membership Policy

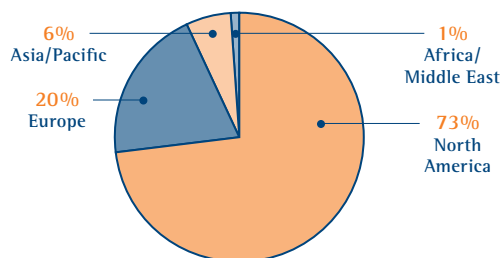
BSR membership is open to all companies seeking to improve the sustainability of their strategies and operations. This policy has been a core principle since BSR's founding. It reflects our desire to assist all companies that are serious about embracing change. We maintain the integrity of this approach by declining to endorse individual companies, rank companies' behaviors, or set a performance standard for our membership. For more information visit www.bsr.org/report.

Since 2005, BSR has focused its attention on particular industry sectors. Companies in distinct sectors face unique challenges and opportunities, and we can most successfully advise companies by utilizing our industry-specific knowledge. We have chosen to focus on sectors that have the greatest impact on sustainability and that we are best able to serve.

Member Companies by Sector*



Member Companies by Location*



*Members with more than \$1 billion in annual revenues.

Consulting

We have increased our emphasis on consulting in recent years. Feedback from our member companies, reinforced by our own assessment, makes clear that this is an essential means of continuing the shift from awareness raising to comprehensive integration of environmental, social and governance considerations into business strategies and operations.

Our consulting expertise centers on strategy and business integration along with expertise in sustainable supply chains, stakeholder engagement and reporting. From our offices in North America, Asia and Europe, we advise our member companies both at headquarters level and operational locations. Examples of projects we have conducted in the past year begin on page 12 in the section "Our Impact."

Consulting Within a Non-Profit Organization

As a non-profit, BSR is driven more by its mission than the bottom line. This model strengthens our ability to offer independent advice and make learnings from these efforts public to increase global understanding of how CSR is central to sustainable economic growth and development. BSR devotes considerable time and effort to balancing the need to protect confidential information developed in consulting engagements while also promoting public learning.

142

Consulting projects completed

(2006 Figures)

136

Companies served through consulting projects and working group participation

(2006 Figures)

Research and Development

We are committed to stimulating new thinking — both through original research and perspectives generated by others — and disseminating it for the benefit of our members and the public. In this way we fulfill our core goal of helping companies anticipate and shape changes at the intersection of business and society.

Our R&D team, established in 2005, generates original research and also draws on a wide variety of leaders from NGOs, academia and the public sector to advance thinking and practical initiatives in BSR's four core issue areas. Compared to projects chartered by and for our members, this work tends to reflect a more diverse set of partners and funders, including member companies and also foundations, public institutions and other experts.

Partners in Innovation

BSR's extensive activities to improve working conditions in global supply chains have been strongly supported and subsidized by numerous institutions in recent years, including the Ford Foundation, The David and Lucile Packard Foundation, the U.S. Department of State, the International Finance Corporation, International Labour Organization and the World Bank. More than \$3 million in generous support from these institutions is funding innovative collaborations in China, Africa and Latin America from 2005 through 2009.

Convenings

BSR's convenings — from the Annual Conference to member company working groups to multi-stakeholder efforts — are central to developing systemic solutions that transcend the impacts of individual companies alone and magnify the impact across entire business sectors. Current BSR-led collaborations are reducing emissions in product transport, protecting freedom of expression and privacy for Internet users, and improving water quality globally. Such efforts range from one-time gatherings to ongoing efforts, such as the Ethical Sourcing Working Group, now in its 13th year of activity.

1,180

Conference attendance, including participants from 49 countries
(2006 Figures)

Working Groups

Apparel Good Practice Working Group (China)

Apparel Water Quality Working Group

Beyond Monitoring

Buyer Compliance Working Group (Hong Kong)

Clean Cargo Working Group

Communications Working Group

Electronics Industry Code of Conduct Implementation Group

Environmental Markets Initiative

Ethical Sourcing Working Group

Food and Agriculture Industry Network

Freedom of Expression and Privacy Multi-Stakeholder Process

Pharmaceuticals Working Group

Pharmaceutical Supply Chain Initiative

Software Working Group

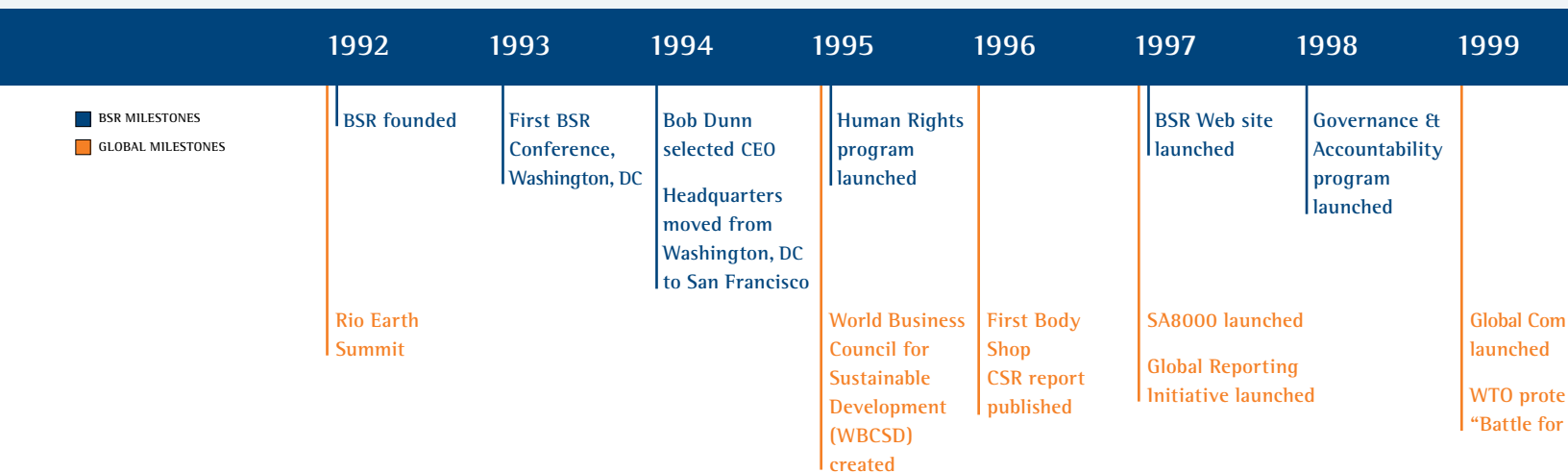
Voluntary Principles on Security and Human Rights (with IBLF)

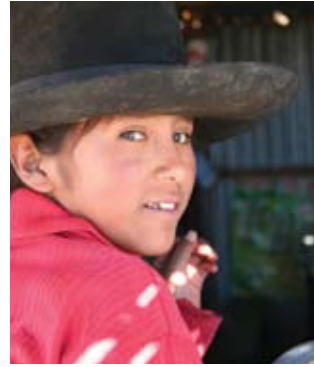
A History of Leadership

For this, our first report, we are providing some background on BSR's history to provide context for our current activities.

BSR was founded in 1992 as a membership association dedicated to helping businesses be "commercially successful and socially responsible." Our approximately 45 founding members included Ben and Jerry's, Patagonia, Tom's of Maine, The Body Shop and other progressive companies recognized early for their commitment and leadership on CSR issues.

Until the late 1990s membership was comprised mostly of U.S.-based companies, including many small- to medium-sized enterprises. We devoted considerable effort to raising awareness in the business community that CSR was a legitimate topic of attention and invested a great deal of time and energy in building bridges between the private sector and the growing NGO sector, and promoting the mutual value of transparency. We conducted long-term projects, often funded by charitable foundations, to raise awareness of the growing field of CSR. BSR operated numerous working groups, broke new ground with our work to address labor issues in global supply chains, and established ties to the nascent global network of CSR intermediary organizations such as Instituto Ethos in





Working with a mine in China to create a community development program (left); Bringing inspiring leaders like Majora Carter of Sustainable South Bronx together at our Annual Conference (center); Helping companies reach out to indigenous people like this Peruvian girl (right).

Brazil and Forum EMPRESA, which works across the Americas. We also funded and facilitated regional and local networks in the U.S., which focused on education and networking.

In the late 1990s, large global companies began embracing CSR more fully. Responding to demand from companies looking more closely at translating principles into practice, BSR began developing direct services designed to help companies advance their own CSR policies and practices. We pursued such opportunities based on our view that engaging with large companies recognized for their CSR innovation had tremendous potential for us to achieve our mission of creating a “more just and sustainable world.”

Through our most recent strategic planning process in 2004, we concluded that “the era of awareness raising” is giving way to an era of effective action and tangible results. Based on these changed circumstances, we implemented the revised strategy described in the previous section, “How BSR Works.”

2000	2001	2002	2003	2004	2005	2006	2007
	Hong Kong office opened	Paris office opened		Aron Cramer selected CEO	Mats Lederhausen elected Chair		Initial staff presence established in Beijing and New York
		French law mandating reporting enacted			Guangzhou, China, office opened		
		Extractives Industry Transparency Initiative launched	First meeting of the parties to the Kyoto Protocol			First Chinese company CSR reports published	Over 50 companies claimed “carbon neutrality”



Our Impact

BSR's reach and impact as an organization are evident in our work with individual companies, our experience forging cross-industry collaborations, and in our R&D initiatives. What follows are some examples of projects we have undertaken in the past 12 months. They are intended to illustrate the way we work and reflect projects that we believe to be successful.

CONSULTING

GE's Citizenship Report Sets the Bar High

The Challenge: GE decided to create a reporting strategy that would communicate a global, companywide approach while also encompassing its diverse business lines: GE Money, Commercial Finance, NBC Universal, Infrastructure, Industrial and Healthcare.

Our Strategy: BSR partnered with GE to create three Citizenship reports (2005, 2006 and 2007) that present for stakeholders the areas in which GE could make the most significant contributions to sustainable development. Key aspects of this strategy included:

- Understanding that GE can make a contribution to sustainable development not just from managing its own operations but, more significantly, by understanding the way in which its products and services can address social and environmental needs such as healthcare, climate change and the need for clean water

- Implementing materiality assessments for some GE businesses to understand which issues presented the greatest risks and opportunities, and where each business could make the greatest contribution through its products and services
- Identifying key areas for improvement (such as human rights policy) and establishing forward-looking commitments
- Identifying key performance indicators and highlighting new metrics (such as waste and water use) that needed to be tracked

Impact: GE is consistently ranked as one of the world's most admired companies. By taking a leadership approach to its reporting, GE is demonstrating how business models can be built that create value for both society and shareholders. The GE report is also frequently cited as a best practice benchmark by other companies eager to adopt leading approaches to CSR.

CONSULTING

WORKING GROUP

Shenzhen's ICT Sector Strives for Social and Environmental Leadership

The Challenge: The Foreign Investment Advisory Service (FIAS), a joint initiative of the World Bank and the International Finance Corporation, sought to build the capacity of the Information and Communications Technology (ICT) sector in Shenzhen, China, to meet international social and environmental requirements and improve the “soft” competitiveness of the industry. This in turn necessitated an innovative multi-stakeholder project approach that included a wide range of industry and public sector players.

Our Strategy: Working with FIAS, we designed the project as a multi-stakeholder, cross-sector partnership including the Municipal Government of Shenzhen, the Shenzhen Electronics Industries Association, the Electronic Industry Code of Conduct (including HP, Microsoft and Intel), and the Global eSustainability Initiative (including Vodafone, Nokia, Motorola and BT). BSR performed field research and a diagnostic assessment including a root cause and cost/benefit analysis. This research included interviews with a range of suppliers, customers, NGOs and government representatives. BSR and FIAS then held a workshop in Shenzhen and published a detailed report in both English and Chinese that included the key findings and recommendations. The strategy includes specific actions that each stakeholder can implement, such as the need for public-private coordination of Chinese supply chain monitoring, and ICT industry collaboration with the government and civil society on capability building. A second-phase pilot project is being developed to test strategies and activities in the two areas most important to the stakeholder groups: worker engagement and management systems.

Impact: The recommendations and capacity-building strategy were specifically designed to be relevant and useful for a wide set of stakeholders. Each group now has the underlying information needed to change their own practices and increase the ability of the sector to improve social and environmental conditions in China. The strategy initially focused on Shenzhen because it is a popular sourcing destination for the sector and the city has already taken steps to improve its CSR practices; but the FIAS project will potentially be expanded to other regions once its effectiveness is tested. The report has been widely distributed and received positive feedback from each group of stakeholders, including customers, government, suppliers and NGOs. The participation of more than 80 stakeholder representatives at the Shenzhen workshop is a testament to the unprecedented level of commitment and collaboration achieved by the FIAS project.



With offices in Beijing and Guangzhou, China, and Hong Kong (above), BSR is well-positioned to serve Asia's growing CSR needs.

WORKING GROUP

Clean Cargo – A Unique Model of Collaboration Between Suppliers and Customers

The Challenge: The safe, environmentally sound and socially responsible transportation of goods is vitally important to society. Employing millions of people worldwide and accounting for 15 percent of global GDP, the international transportation industry plays



BSR's Clean Cargo Working Group reduces environmental impacts in the transportation and retail sectors.

an essential role in improving the quality of life of individuals and communities around the world. Ocean shipping carries about 95 percent, by weight, of all international trade. Between 1983 and 1990, waterborne trade rose 70 percent worldwide and some analysts predict that by 2025, the volume will double as world trade escalates. The marine industry is internationally regulated but universally accepted practices for addressing environmental impacts are in their infancy.

Our Strategy: In 2002 BSR convened the Clean Cargo Working Group, a unique collaboration between global transportation service providers (“carriers”) and multinational companies (“shippers”) from a variety of sectors. The overarching goal of the group is to foster continuous improvement of environmental and social performance of freight transport, in a business-to-business forum, by sharing information and promoting best practices. By pursuing a collaborative approach, BSR has provided a forum with the following benefits:

- Increased Trust – Jointly addressing environmental and social challenges helps to build trust among carriers and shippers
- Enhanced Brand Recognition – A company’s ability to attract customers and investors is becoming increasingly dependent on its environmental and social performance
- Increased Efficiency – Multi-industry partnerships enable shippers and carriers to develop solutions that increase efficiency and overall corporate performance
- Improved Stakeholder Relations – Proactive engagement in environmental performance issues improves a company’s position when negotiating with non-industry stakeholders

Impact: The group is poised for continued success as member companies of Clean Cargo already represent nearly 60 percent of the global container capacity. With over 20 members, the Clean Cargo Working Group has jointly developed an environmental performance survey (EPS), a supply chain management tool that facilitates the standardization of information exchange between carriers and ocean shippers. The EPS is a business-to-business tool enabling shippers to evaluate the environmental commitment and actions of their carriers as well as to develop emissions footprints for the transportation impacts of their products. For carriers, it provides a standardized format for reporting their environmental performance to shippers. The group is also working together to shed more light on the “CO₂ footprint” of transporting goods intermodally. Led by BSR, the group has developed a draft tool to measure the total impact of goods transported, which includes the

carbon footprint of planes, rail and road. Lastly, the group has piloted a survey to assess the social risk of owned/operated transportation services and vessels. Results of the survey will be assessed at the next group meeting and a full process will be launched in 2008.

CONSULTING

IBM Supports Small Businesses in Emerging Economies

The Challenge: IBM wanted to develop a virtual business incubator for small- and medium-size enterprises (SMEs) and asked us to help evaluate target markets, assess gaps in current offerings and desired functionality, and identify potential partners. Such an understanding would prepare IBM to develop a solution that best meets the needs of SMEs and maximizes the impact on economic development.

Our Strategy: BSR's initial analysis supported a competitive assessment of existing services and identified potential partners. We developed a framework for evaluating capacity-building organizations focused on small/medium businesses in emerging markets and provided a high-level assessment of SME needs in those markets. Once IBM used this analysis to help focus on the collaboration needs of such businesses, BSR created a framework IBM used to analyze the current offerings and collaboration needs of SMEs in India, Brazil and South Africa, and among women/minority-owned businesses in the United States. We developed the strategy and tools based on our first-hand experience working with SMEs in emerging markets, our relationships with NGOs and multi-lateral institutions focused on supporting emerging market entrepreneurs or women/minority-owned businesses, our knowledge and experience working with multi-national value chains and supplier diversity programs, and the specific content knowledge we have from past work in India, Brazil and South Africa.

Impact: IBM used BSR's research to help evaluate potential collaboration partners and later formed a partnership with the International Finance Corporation and its SME Toolkit. IBM also leveraged the report findings and the company's increased understanding of SME needs in emerging markets to shape priorities for tool development. This project is contributing to economic development in communities that currently lack complete access to the market economy. It allowed IBM to leverage its technology strengths to develop tools that provide SMEs with access to peer support, mentoring, best practice sharing and expertise of business partners. It also tied directly to IBM's business growth strategy: an increased focus on the small business segment as well as key emerging economies.

Barriers to Impact

There are times when we don't achieve the results we seek. This is due in large part to the complexity of our hybrid model that combines member service, consulting, research and convening. At times, both our staff and our members question whether delivery of consulting services is consistent with the purpose of a membership organization with a social mission. Though we strive to achieve the right balance of service and leadership, we don't always succeed. We strongly believe that these dual dimensions of our identity can not only coexist but also ideally reinforce each other — as long as we stay attentive to the necessary tradeoffs.

Though we have pledged to help address these challenges by fully integrating customer satisfaction assessments into our project work with member companies, funders and other partners, we have not fully met this goal in the past year. Perhaps most significantly, we have not yet developed robust means of measuring our impacts. We will continue to work on these goals, and have more complete measures of satisfaction and impact in future reports. We think these steps are important for BSR and the entire CSR community, and we will work with other organizations to make progress together.

CONSULTING

WORKING GROUP

Achieving Global “eSustainability”

The Challenge: The Information and Communications Technology (ICT) sector moves quickly. It is known for developing new products and services, as well as driving the convergence of previously separate services into integrated products. These constant changes are accompanied by rapidly shifting CSR risks and opportunities. While companies often seek to maximize the sustainability of CSR efforts by prioritizing their most material issues, there is no consensus on which issues are most material for the ICT industry as a whole.

Our Strategy: The Global eSustainability Initiative (GeSI), a partnership including Vodafone, Nokia, Motorola and BT, recruited BSR to fill this void by coordinating a process to define the most material issues for companies in the ICT sector.

These issues will be:

- Informed by consultation with stakeholders (for example, through a series of multi-stakeholder dialogues)
- Focused on those areas where the ICT sector can make the most substantial contribution to sustainable development

- Categorized by ICT industry sub-sectors such as consumer electronics, service providers, Internet and equipment manufacturing
- Forward looking — which is particularly important given the speed of development in the ICT industry

Impact: While the outcome of the materiality process will be published in early 2008, it is intended to deliver the following benefits:

- GeSI’s 22 member companies will improve the quality of their own sustainability reports and strategies, focusing on the issues that matter most and maximizing their contribution to sustainable development
- Investment analysts will gain an understanding of the issues considered most material to companies in the ICT sector, and thereby improve the quality of analysts’ engagement with the ICT sector
- GeSI will be prepared to focus the development of its own future strategy and work plan on those issues most material to the ICT sector.

CONSULTING

Sino Gold Implements Action Plan for Community Development in China

The Challenge: Sino Gold’s Jinfeng Mine is an Australian-operated joint venture with the Chinese government that entered production in May 2007. Sino Gold sought guidance on how to build its “social license to operate” by promoting long-term community development in the five remote villages surrounding the mine in the mountains of southern China. Sino Gold contacted BSR for advice on the design of a community development strategy that would go beyond traditional public relations or social marketing efforts to promote real, tangible improvements in people’s quality of life.



Wei Dong Zhou, BSR’s China Director, interviews Chinese village youth to help Sino Gold understand community needs there.

Our Strategy: We responded to this challenge with a two-stage approach. First, BSR staff from our Energy & Extractives team in San Francisco and our Guangzhou, China, office conducted a stakeholder mapping session with mine staff in China, as well as a series of in-person interviews with more than 100 community members and government officials in the area around the mine. By listening to people's hopes and fears regarding the mine's impact on their daily lives, we developed a short list of stakeholders' key "issues of concern." For example, community members were eager to work at the mine or develop small businesses supplying the operation, but did not always have the necessary education or skills to do so. Government officials were looking for increased opportunities to dialogue with the mine and explore options for collaboration in promoting local community development.

Based on these key issues, we next set out to identify and evaluate international development agencies and other domestic non-profits as candidates to partner with the mine in the design and implementation of a community development program. Relying on its network, BSR conducted in-person and phone interviews with potential partners and then recommended a short list of domestic and international candidates that would be good development partners for Sino Gold.

Impact: Sino Gold is taking action on the recommendations we presented both in China and at company headquarters in Sydney. Sino Gold plans to establish a multi-year budget commitment for community development at Jinfeng and has begun a dialogue with the recommended development agencies to develop a long-term partnership agreement. Development work in the five communities around the mine is expected to be underway by the end of 2008.



BSR works with both ends of the value chain, from subsistence farmers to major industry, to address critical environmental, water and health issues.

RESEARCH & DEVELOPMENT

WORKING GROUP

The Environmental Markets Initiative

The Challenge: The landmark Millennium Ecosystem Assessment — the most far-reaching ecological study ever undertaken, conducted by over 1,300 scientists around the world — found that 60 to 70 percent of environmental functions, such as natural water purification and flood protection, are being degraded faster than they can recover. The private sector, its customers and its suppliers rely on many of these services for consistent supply, business continuity and consumer purchasing power. BSR took on the challenge of identifying and evaluating financial mechanisms that can be applied to these services in order to capture their value through new environmental markets.

Our Strategy: BSR's Research & Development team conducted a due diligence process with numerous stakeholders, nearly all of whom identified "reaching ecological limits" as a key megatrend that should frame our efforts. We then worked to identify cutting-edge approaches to environmental management, focusing on the emerging field of Payments for

Ecosystem Services, also known as “Environmental Markets.” We shared our findings in BSR reports and external publications and formed the Environmental Markets Initiative Working Group with five oil and gas companies that provide both financial support and thought partnership. Through this working group, we researched the emerging landscape of new financial mechanisms and published a “Corporate Manager’s Resource Guide to Environmental Markets.” In addition, the group will assess the utility and future design of new tools for environmental service identification and valuation. In 2008, the working group will expand its scope of work to include demonstration projects with individual companies, in-depth research into select environmental service markets, and dialogue with policy-makers to ensure a business voice in designing smarter regulation.

Impact: BSR’s Environmental Markets Initiative has contributed key empirical research through interviews with hundreds of global experts, produced quantitative analyses of market growth, mapped the various initiatives from different sectors and geographies, and facilitated partnerships to align agendas and avoid duplicative work. This demonstrates BSR’s capability to develop highly innovative cross-sector collaborations that leverage the resources of corporations, academia and governmental institutions.

Based on current trends, we predict that corporate investments in ecological infrastructure will become core strategies for leadership companies within the next five years. By becoming a leading organization in this space, BSR is able to help companies anticipate this new generation of corporate environmental strategy.

RESEARCH & DEVELOPMENT

Promoting Business Engagement in Enhancing Effective Public Governance

The Challenge: Companies are increasingly finding that the boundaries between public and private responsibilities are unclear. Many CSR challenges flow directly from weak or poor governance, or from a lack of clarity about how to address questions of global significance. Appropriate business efforts to address topics ranging from climate change and labor standards to bribery and corruption are more likely to be successful where effective public governance is present. Indeed, truly sustainable economic growth is more likely where governance mechanisms function effectively.

Our Strategy: We have worked with the World Economic Forum (WEF) and numerous companies to generate increased business attention to this dilemma. BSR and WEF have collaborated with 15 companies participating in WEF’s Global Corporate Citizenship Initiative to develop support for private sector action on this topic. This initiative aims to raise awareness of the dimensions of this issue and its critical link to sustainable economic development, its importance to business, and examples of action steps business can take to contribute to more effective public governance. Through global dialogues and publications, BSR and WEF have generated support for further business action in 2008 and beyond. This initiative is evidence that our research and development activities are effective in illuminating emerging issues and solutions for the business community.

Impact: This effort is intended to increase business awareness of public governance as well as promote business efforts to work alone and in partnership to improve governance. Our goal in this work is to help create conditions in which companies’ CSR efforts can be more effective. It is our sense, and that of WEF, that these efforts can strengthen conditions for economic growth, create opportunities to increase public-private partnerships that build systematic solutions to sustainability challenges, and clarify how multi-stakeholder initiatives can maximize their potential through accountable governance structures.

RESEARCH & DEVELOPMENT

Women's Health Enables Returns in Global Supply Chains

The Challenge: Women between the ages of 18–25 often comprise the vast majority of developing world workers making products for export to the developed world. Much of this work is performed in environments where access to information about reproductive health, as well as critical health services, is lacking. Moreover, factory managers often question the value of investing financial resources in health programs due to high turnover and the perception that young, unmarried women workers are not sexually active and thus not at risk for reproductive health problems. Despite the challenges presented by this reality, we set out to leverage our unique position to improve the general and reproductive health of women workers along global supply chains.

Our Strategy: After an initial research phase in 2006, BSR's women's health initiative — known as HERproject (Health Enables Returns) — is now focused on testing innovative models for delivering health training, services and more to factory-based women workers in China, India, Indonesia, Pakistan and Vietnam. With ongoing funding from the David and Lucile Packard Foundation, this model coordinates health training pilot projects that are implemented by local NGOs, which are compensated for their services by participating companies. BSR acts as a facilitator of these partnerships, catalyzing corporate action to address the unique health needs of women workers while simultaneously supporting the development of grassroots NGOs. Our model is further enhanced by the quantitative acumen of BSR's primary project partner: the Extending Service Delivery (ESD) initiative, funded by the U.S. Agency for International Development.

Impact: ESD, through a landmark return-on-investment study in a Bangladeshi factory, found that for every \$1 invested in women's health training and services, factories reaped a return of \$3 in the form of higher productivity, reduced absenteeism and lowered turnover.

To help BSR member Nordstrom achieve similar results, we recently launched a series of pilots for the company in five factories in China. Our goal is two-fold: to educate young, female factory workers on women's health issues with a focus on HIV/AIDS and to measure and evaluate any changes in productivity, absenteeism and turnover during the pilot period. Leveraging a peer education model, BSR is training peer educators who are disseminating learning throughout the factory population. Pilot planning is well underway in the other focus countries as well. This initiative has elicited an overwhelmingly positive response from our membership and beyond — confirmation that our strategic, innovative approaches can offer value to businesses while also advancing social well-being.

For every \$1 invested in women's health training and services, factories reaped a return of \$3 in the form of higher productivity, reduced absenteeism and lowered turnover.



BSR helps companies realize a three-fold return on every dollar invested in health services for factory-based women workers in Vietnam (above) and other Asian countries.



Designing a Sustainable Future: The Road Ahead

For CSR

The world is seemingly paying more attention to corporate responsibility than at any time in recent memory. It is our collective challenge to capture this opportunity.

Externally, companies will be facing a world marked by resource constraints — an increasing influence of key emerging economies, demands for more transparency, and the possibility that faith in markets will continue to decline — with the role of the state returning to greater prominence.

In our view, the challenge for companies is to craft business strategies that create products, services and relationships in concert with society's expectations and needs. This means shifting away from a view of social and environmental questions as “externalities” in favor of a resilient approach that easily integrates change for the mutual benefit of business and society.

Companies can effectively devise such approaches by:

- taking a systems-based approach to understanding changing social and environmental conditions
- focusing on true integration of CSR into their core activities
- translating objectives into action with measurable results

The impact of these steps will be reinforced where business cultures actively listen to signals of change from external voices, commit to innovation and risk taking, and take new approaches to leadership appropriate for our heavily networked world.

We think that the next generation of CSR leadership will come from companies that focus on how to make change happen inside their organizations and build value through sustainability. Such leadership is needed if business is to develop systemic solutions on key CSR challenges: climate change, human rights, economic growth and development, and balancing the interests and needs of all stakeholders.

For BSR

For BSR, we will continue to grow and evolve to help our member companies innovate and succeed.

While this report details some of our successes, we are also aware of our shortcomings and constraints, including the challenge of creating change at the pace we want.

For example, we have consciously chosen a hybrid organizational model for BSR that blends leadership with service. Sometimes, however, these two goals collide, such as when we promote approaches that don't meet our members' views of how best to serve them. We actively promote important concepts like stakeholder engagement, sustainability reporting and codes of conduct, yet there are times when these models appear to be static or become ends unto themselves. We share the struggle with many companies about how best to bring CSR into central strategies and “mainstream” business functions. We also find it difficult at times to balance the need to honor our members' desires to maintain confidentiality with our public purpose to promote awareness and learning more widely.

In the past couple of years, we have taken steps to transcend these dilemmas and shortcomings. We have diversified our skill base to position us to help meet the strategy, innovation and integration challenges that increasingly define the success of companies' commitments to sustainability. This has meant bringing people onto our staff whose background and expertise are on business integration and change management. We have increased our commitment to original research, which we think will both enrich our service to membership and also maintain our commitment to leadership. We are also becoming a more decentralized and global organization with a growing presence in Asia, Europe and the East Coast of the United States.

We believe these steps will continue to build a forward-looking organization that helps foster sustainable business strategies through a staff with global perspectives. We are confident that this will make us an increasingly valued partner in the precious opportunity to contribute to a just and sustainable world.

We look forward to sharing more about this journey through our work with you and in future reports.



Working with communities is an essential element of corporate responsibility.

External Engagement

In advance of publishing this report, we sought to test our approach and to act consistently with the advice we give others: to report in a transparent manner incorporating external perspectives. We organized two roundtable discussions, one each in London and New York, inviting experts on CSR and reporting from member companies and project partners from civil society. Participants reviewed a draft of the report in advance and provided feedback on whether it: included the most relevant topics, used the most relevant measures of performance, or omitted important information.

Participants provided invaluable perspective and had significant influence on the structure and content of this report. Specifically, their advice influenced us to:

- Shorten and focus the report, with additional information provided on our Web site
- Reduce the amount of data about our physical footprint
- Provide more examples of our work
- Emphasize our view of where CSR is and should be headed in the coming years

As one participant put it, “We are more interested in your ‘brainprint’ than your footprint.”

BSR also benefited beyond the content of this report. The discussions confirmed our instinct that the time for theory and frameworks has been eclipsed by the imperative to deliver tangible progress toward more sustainable businesses, economies and societies. We are indebted to them for their generous, challenging and helpful advice. Participants in the dialogues are listed at www.bsr.org/report.

Eco-Audit

By printing with soy-based inks on New Leaf Reincarnation Matte paper made with 100% recycled fiber, 50% post-consumer waste and processed chlorine-free, BSR saved the following resources: 12 fully grown trees, 4,226 gallons of water, 8 million BTUs of energy, and 1,018 pounds of greenhouse gases.

MORE ON THE WEB

This report and BSR's audited financial statement from 2006 are available in PDF format at www.bsr.org/report

Headquarters

San Francisco

111 Sutter Street, 12th Floor
San Francisco, CA 94104 USA
Tel: +1.415.984.3200
Fax: +1.415.984.3201
www.bsr.org

Offices

Beijing

Room 1406, Building 3
Sun City, 18 Xin Zhong Jie
Dong Cheng District
Beijing, China 100027
Tel: +86.10.8447.3660
Fax: +86.10.8447.2413

Guangzhou

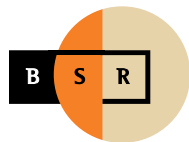
Room 1013, West Tower
Times Square
28 Tian He Bei Road
Guangzhou, China 510620
Tel: +86.20.3891.0690
Fax: +86.20.3891.0681

Hong Kong

Suite 1002, Two Pacific Place
88 Queensway, Admiralty
Hong Kong
Tel: +852.6331.6254
Fax: +86.20.3891.0681

Paris

59 Boulevard Raspail
75006 Paris
France
Tel: +33.1.46.47.99.04
Fax: +33.1.45.44.64.71



Business for Social Responsibility