



Innovating for Sustainability

BSR Report 2009



Our mission:
We work with business to create
a just and sustainable world.

BSR Report 2009
Innovating for Sustainability

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Letter from the CEO

The BSR Report 2009 covers one of the most tumultuous years in the global economy since BSR was founded in 1992.

2009 presented numerous challenges for the entire world, not least for all of us dedicated to sustainable business. At the start of the year, many observers thought companies would consider corporate responsibility to be an expendable luxury that could be cut along with other discretionary budgets. “Sustainability,” they predicted, would be redefined as “basic economic survival.”

Fortunately, these predictions did not play out. Rather, 2009 showed us that sustainability can—as we had argued—help pull business out of the recession. With this in mind, we went into 2009 with a renewed dedication to our mission, along with a clear awareness of the recession’s impact on our member companies and our own ability to serve them. In this context, this Report provides our perspective on the events and lessons of 2009, as well as a snapshot of our work and impact throughout the year, the challenges we faced, and our financial performance.

Despite the difficulties presented by the economic conditions, it is clear that sustainability remains as important to business—and to the world—as ever before. In last year’s BSR Report, we outlined a road map for succeeding in the “reset world,” focusing on long-term thinking, innovation, systemic solutions, partnerships with government, and rebuilding trust.

Today, even as the recession appears to be subsiding, this formula remains crucial. However, 2009 also produced many new lessons, as we have described in a section on “The State of Sustainable Business.” The inability of governments to conclude a binding agreement at Copenhagen is but the latest reminder that significant progress on crucial issues requires business leadership: Waiting for others to act won’t suffice. We also believe that, while climate change remains a supreme challenge, companies would do well to recommit to a comprehensive agenda that includes economic development, human rights, and water. The reset world also underlines the fact that

leadership in sustainable business will be defined by innovation, a theme we return to this year. Innovation also has to extend to the creation of products and services—and new business models—that deliver more value with fewer impacts on natural resources, encouraging all consumers to embrace sustainable consumption. Companies that do this will be best positioned to meet the challenge of the coming decades, and those that don’t will be left behind.

Despite the economic upheaval of 2009, BSR’s membership and our overall organizational health remained stable. And, most importantly, even though many of our member companies had fewer resources available to them, we continued to help them create innovative solutions that will lay the groundwork for an economic recovery that produces a more sustainable level of growth. Our case studies illustrate some of the solutions we developed with companies on a diverse array of projects in the past year.

The principles we state here will guide our actions in 2010. We hope this year’s Report also provides perspectives that you can apply over the year to come so that, together, we can innovate for a more sustainable world.



Aron Cramer
BSR President and CEO

The State of Sustainable Business


A close-up view of a financial data board, likely a stock exchange ticker, displaying columns of numbers and text. The image is overlaid with vertical teal and yellow color bands.

Symbol	Price	Change	Volume
IBM	125.00	+0.25	1000
MSFT	85.00	+0.50	500
GOOG	200.00	+1.00	200
AMZN	150.00	+0.75	300
APPL	100.00	+0.50	150

A large financial data board displaying multiple columns of stock market data, including stock symbols, prices, and volumes. The board is divided into sections for different market segments.

Symbol	Price	Change	Volume
IBM	125.00	+0.25	1000
MSFT	85.00	+0.50	500
GOOG	200.00	+1.00	200
AMZN	150.00	+0.75	300
APPL	100.00	+0.50	150





As the economy begins to recover, structural changes that were masked by the recession are regaining their prominence.

It is again clear that globalization has shifted influence from West to East and from North to South, that transparency is a condition and not an action, and that the world's governance systems and market rules do not promote or enable the long-term thinking required to shift to low-carbon prosperity. What's more, revived economic growth is again exacerbating existing challenges related to climate, water, and biodiversity.

Long after the recession passes into history, these trends will be shaping economic conditions. They are the reference points that business should consider in shaping their strategies.

More and more companies recognize this. As a result, they are making sustainability not just a program, but, in fact, the defining feature of success in a fast-changing world.



We see four steps for business to succeed in this new economy.

1

Don't Wait— Take the Lead

The 2009 climate conference in Copenhagen failed to produce a definitive policy framework. As is often the case, failure delivered more lessons than success. While the summit's outcome left the outlook for climate policy murky, the message for business was clear: It must lead the transition to a low-carbon future. Business support for a global treaty that sets a clear price for carbon is critical, but action cannot wait until such a framework emerges. Innovation has to speed ahead to fill the leadership gap and develop a more sustainable energy mix that meets the world's needs.

In a similar vein, there are reasons to be skeptical about how much progress the international community will make on crucial goals related to social and economic development. Two-thirds of the way to 2015, achievement of the Millennium Development Goals (MDGs) is uncertain at best.

Progress on all of these fronts depends on business action, and companies that innovate in these areas will gain first-mover advantage. Business leadership will deliver results, demonstrate what's possible, and, just possibly, prompt governments into action. And when public policy frameworks do arrive, companies that have anticipated change will be ahead of the game.

2

Take a Comprehensive Approach

In many ways, 2009 was the year when climate and the recession drowned out the rest of the corporate responsibility agenda. This is problematic for two reasons.

First, sustainability issues are interrelated. Climate change affects water, and it is also a human rights and governance challenge. The only way to tackle any of these issues is by taking a systems-based approach. This means we must look at the connections between otherwise “siloed” issues, and understand which levers business can pull on its own, and which objectives can be reached only by working with experts, governments, and civil society organizations.

Second, unsurprisingly, the recession created more economic vulnerability and human suffering. With achievement of the MDGs uncertain even before the recession hit, there remains much work to do. Leveraging new technologies to increase access to financial services, health care, or other basic needs presents new and growing opportunities for enterprise development. As UN Special Representative John Ruggie’s mandate to shape an approach to human rights for business enters its final year, companies would do well to refocus attention on how to apply human rights principles to their business activities.



3

Invest in Innovation

Innovation is more important than ever as a key driver of sustainable business success.

In times of economic uncertainty, companies that focus on innovation roar back to life more quickly than those that don't. As the world's economy returns to health, it is clear that sustainability will drive the next wave of innovation. This means companies should take a fresh look at products and services, business processes, and business models.

Applying innovation to sustainability depends on meeting the needs of the new consumers who will define the 21st century. The key question is how to create options that enable rising middle classes in emerging economies to improve their well-being without draining the world's already-stressed natural resources. Increasingly, these consumers will be in large cities, especially those in the global South. Designing products that meet the distinct needs of these populations—health, mobility, and information—will deliver good business outcomes and good social outcomes.

4

Make Sustainable Consumption a Reality

This vision of innovation will work only if companies employ new business models that make sustainable consumption a reality.

The interests of business and consumers are finally beginning to align around the need for products and services that deliver more value with fewer natural resources. Consumer use often accounts for a large part of a product's footprint, which means that companies and consumers have a mutual stake in changing existing patterns. Companies that find a way to deliver solutions instead of products, or radically reduce the material inputs and consumer impacts associated with the use of their products, will gain great market advantage.

Making this vision a reality depends on inspiring consumers to choose more sustainable products and services, which in turn stimulates market demand for more of such offerings, creating a virtuous circle. The first generation of point-of-sale information on products' social and environmental footprints is arriving, and in 2010 we may see the development of product-based portals that enable consumers to access a wealth of information about products' sustainability aspects—both great steps forward from the static green labels that have made little difference in consumer behavior.

All this is essential: Until consumers change their habits and practices, systemic progress is harder to achieve. And companies play a critical role in leading and enabling consumers to make those changes.



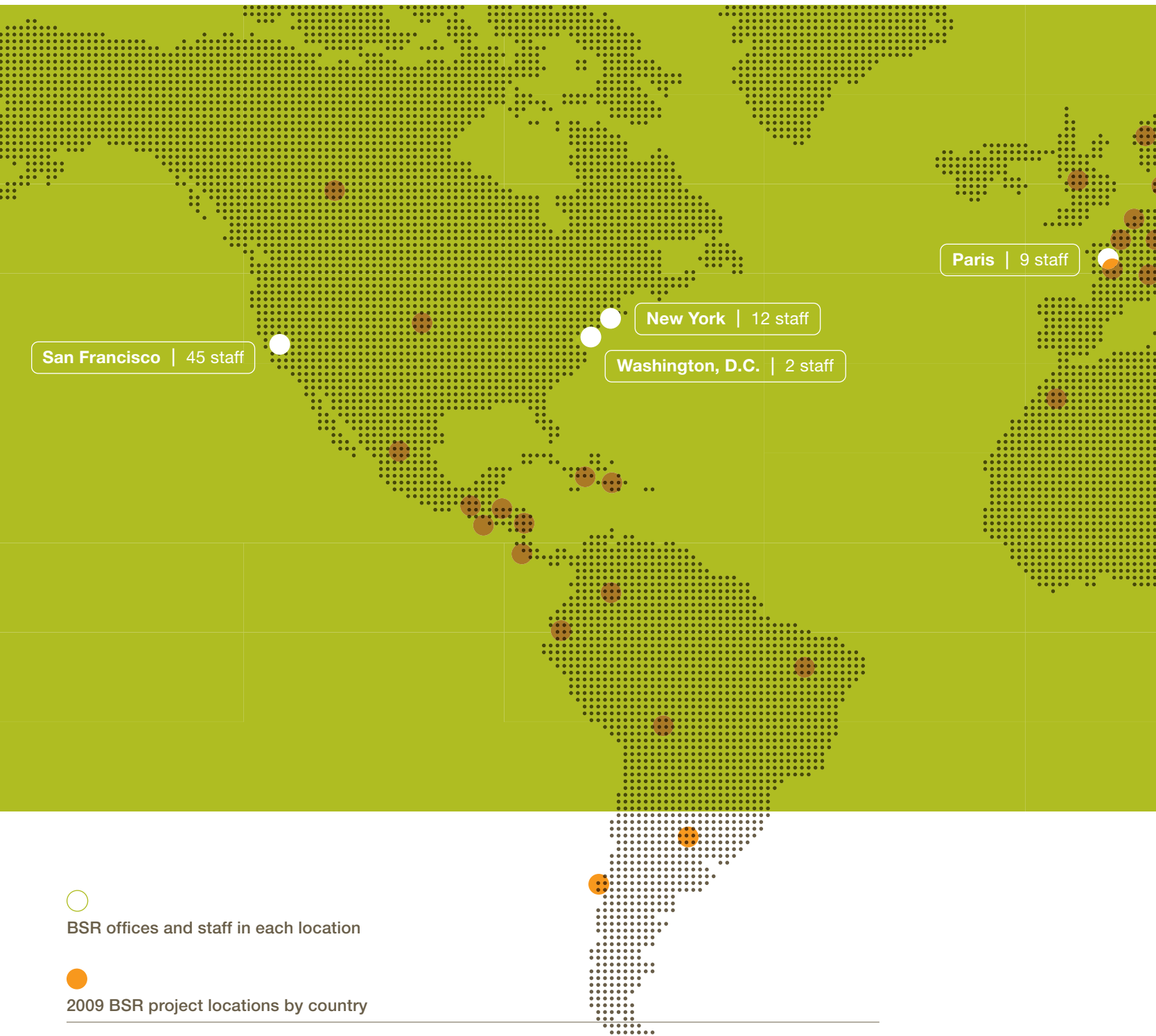


The economic recovery should not mean a return to business as usual. While calmer economic conditions have returned, the road to tomorrow's prosperity is not the same as what came before. The businesses that assert leadership, take a comprehensive approach, use sustainability as a driver for innovation, and champion sustainable consumption will not only become the sustainability champions, but also the most successful companies in the years ahead.

Our Impact

2





○
BSR offices and staff in each location

●
2009 BSR project locations by country

Argentina	Democratic Republic of the Congo	Honduras	Nicaragua
Australia	Denmark	Hong Kong	Norway
Bahrain	Dominican Republic	India	Pakistan
Bangladesh	Ecuador	Indonesia	Papua New Guinea
Belgium	Egypt	Italy	Philippines
Bolivia	El Salvador	Korea	United Arab Emirates
Brazil	Finland	Kuwait	United Kingdom
Cambodia	France	Japan	United States
Canada	Germany	Jordan	Saudi Arabia
Chile	Greece	Malaysia	Singapore
China	Guatemala	Mexico	Sweden
Colombia	Haiti	Morocco	Switzerland
Costa Rica		The Netherlands	Vietnam



From advising an executive team on their company's sustainability strategy to facilitating community dialogue on water use, we work with businesses globally, in a variety of settings. While our projects span many sectors, issues, geographies, and approaches, they are all undertaken to achieve our mission: working with business to create a just and sustainable world.



Case Studies

This section provides a snapshot of our work in 2009. The next several pages highlight examples of our consulting and grant-funded projects, as well as our research initiatives, the BSR Conference 2009, and our efforts to enhance the value of BSR membership. These case studies illuminate our efforts to shape—and sustain—the business of a better world.



AgroAmérica: Improving Productivity Through Better Communication



20% REDUCTION IN WORK STOPPAGES

Incidents of work stoppage at two AgroAmérica banana farms have dropped by 20 percent as a result of a program designed to build trust and dialogue among workers, the union, and management.

THE CHALLENGE

AgroAmérica, one of Guatemala's largest commodity crop companies, employs more than 8,000 plantation workers. Two of its banana farms have faced chronic work stoppages due to the generally poor relationship between the company, its employees, and the farm's trade union. This has contributed to the farms' low productivity as compared to other company farms, despite significantly better growing conditions. Deep mistrust between workers and company management is widespread in Guatemala and remains potent despite the end of the long civil war 15 years ago. This mistrust frequently results in ineffective dialogue and, thus, frequent work stoppages on unionized farms.

OUR STRATEGY

We began this project, together with our local project partner, CentraRSE, by interviewing internal and external stakeholders—including workers, management, union leaders, and representatives from trade confederations and government ministries—to understand both the national context and the specific situation on the farms.

To tackle these challenges, we built a strategy centered on a series of workshops that brought together workers, union leaders, and farm administrators. We developed three main objectives for the workshops: First, strengthen the communication skills of participants; second, demonstrate the mutual benefits of working together; and third, build trust between the two sides by providing them with opportunities to work together in a safe environment.

We believed that the positive experience of the workshop would translate into better collaboration, and ultimately improved productivity, on the farms. The workshops also

allowed us to create a safe space for participants to talk about difficult subjects that otherwise would not be discussed, such as poor supervisor communication and counterproductive worker actions. The workshops provided an opportunity for participants to put theory into practice—for example, by working together to analyze existing avenues for communication and agree on new ones.

OUR IMPACT

In less than one year, the project has led to a 20 percent reduction in work stoppages, increased productivity, and a mutually agreed-upon goal of increasing 2010 production by more than 15 percent. Workers and supervisors now discuss performance against goals in small group settings, and both sides state that the quality and ease of communication have improved. For example, the company has installed secure suggestion boxes and three bulletin boards for both administrators and workers to post information such as production numbers, personal and professional development topics, and upcoming events.

The workers participating in the project noted that in a short time they have seen increased wages due to higher productivity. However, they also report pressure from some coworkers who still question why workers and union leaders are collaborating with management. To respond to this challenge, we have focused on increasing worker participation in the program and overall worker support for the project's goals. AgroAmérica plans to extend this model to its other farms.

This project was made possible by a grant from the U.S. Department of State to BSR for its "DR-CAFTA Responsible Competitiveness Project." This project works with producers, labor, government, and international buyers to promote responsible labor practices in countries of the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA). For more information, visit www.drcafta.bsr.org.

Alcatel-Lucent's CSR Council Embeds Sustainability Into Core Strategy

50% CARBON FOOTPRINT REDUCTION

Alcatel-Lucent has committed to reducing its carbon footprint by 50 percent of 2008 levels by 2020.



THE CHALLENGE

Information and communications technology (ICT) plays a critical role in enabling the transition to a low-carbon economy—and, increasingly, investors, consumers, and NGOs expect ICT companies to step up to the challenge. Alcatel-Lucent, a world leader in high-tech equipment for telecommunications networks, wanted to meet not just these expectations, but also to embed a strategy to anticipate future sustainability requirements.

Alcatel-Lucent's newly appointed CEO Ben Verwaayen called for bold sustainability objectives that would be integrated into the company's long-term business strategy. Verwaayen wanted to enable and inspire employees to lead, test the limits of what is physically and financially possible for the business, and define new concepts for growth and value creation.

To meet these goals, Alcatel-Lucent turned to BSR to develop and guide the company's advisory body to focus the company's sustainability strategy, develop initiatives, and deploy them to the company's more than 77,000 employees in 130 countries worldwide.

OUR STRATEGY

BSR worked with Alcatel-Lucent to set up and manage the CSR Council, an advisory board comprising C-level executives from each of Alcatel-Lucent's four business units as well as external sustainability experts. Aligning its focus with the company's most material sustainability issues, such as climate change and the role of ICT as an enabler for other companies to reduce their carbon emissions, the council sets CSR priorities and goals, reviews progress, and provides perspective on potential risks and opportunities related to emerging social and environmental issues.

We participated as one of two external experts in the council's quarterly meetings, leading discussions, sharing insights from our experience in key markets, and challenging assumptions. In addition, we provided support to the council activities by helping:

- » Design the CSR Council and its governance based on a review and analysis of other similar efforts.
- » Shape strategic priorities based on research and analysis of a range of market trends, and the role of innovation in sustainability within the sector.
- » Define the company's 2020 goals on issues such as climate change and CSR in the supply chain through dialogue with sustainability leaders inside the company.
- » Refine the concept underpinning Green Touch, a consortium that brings Alcatel-Lucent together with other leaders in industry, academia, and government labs. The initiative is designed to invent and deliver radical new approaches to energy efficiency that will help transition the world to a low-carbon economy.

OUR IMPACT

Not long after the formation of the CSR Council, the strategy began yielding results. For example, Alcatel-Lucent has committed to reducing its carbon footprint by 50 percent of 2008 levels by 2020. To achieve this goal, the company is taking measures that involve the entire workforce and the full range of its activities, from facility operations and logistics to information technology and business travel.

ANZ: Responsible Growth in the Financial Services Industry



20% OF EARNINGS IN THE ASIA-PACIFIC

BSR is helping ANZ grow its presence in the Asia-Pacific region to around 20 percent of earnings by 2012.

THE CHALLENGE

In an era when the bank down the street is often headquartered in another country, the question of a company's social license to operate has taken on new meaning. In this context, Australia-based ANZ asked BSR to apply its expertise in stakeholder relations in Asia as a key enabler of its strategy for expanding into new markets in the region. The company, which has a strong history of corporate responsibility at home, sought input on how to develop a new, groupwide corporate responsibility strategy to align with its business growth strategy, focusing on new target markets in China, Indonesia, and Vietnam.

OUR STRATEGY

We developed and executed a regional stakeholder dialogue plan for ANZ to help the company understand expectations for a responsible bank in these markets. This included planning and facilitating eight separate engagements in Beijing, Ho Chi Minh City, Hong Kong, and Jakarta. We identified the more than 55 stakeholder organizations that participated, including representatives from local and national government, multilateral institutions, peer companies, consumer protection organizations, environmental and labor NGOs, and others. We drew on BSR's expertise in the industry and in the region, our stakeholder network, and our knowledge of advanced facilitation techniques.

The events yielded critical information on ANZ's most material social and environmental risks and opportunities in these new regions, and also identified opportunities to build new relationships with stakeholders who will be critical to the bank's social license to operate. Key themes such as urban sustainability, bridging urban and rural divides, and building financial capability emerged directly from these engagements and became core elements of the company's new strategy.

OUR IMPACT

Based on the dialogues, additional BSR research, and a two-day strategy workshop we facilitated with the company's corporate responsibility team, BSR helped ANZ develop a new companywide corporate responsibility framework, and BSR CEO Aron Cramer joined ANZ CEO Michael Smith in the launch of the strategy in September 2009. The framework focuses on:

- » **Building individual prosperity:** using products, services, education, and employment programs to create pathways to security and prosperity
- » **Contributing to thriving communities:** developing local capacity to create solutions for important community issues
- » **Navigating growth responsibly:** demonstrating responsible practices and decisions that balance economic, social, and environmental considerations

The company is now working on developing specific programs to support the framework and implementation at the country level. This includes providing specific tools and resources for bank leadership in these new markets, as well as a new network of local stakeholders who understand ANZ's objectives and can support responsible market entry or expansion in these countries. This new platform will add value to the company's existing work as it expands. It will also add consistency through more focused activities and communications, as ANZ implements its strategy of becoming a super-regional bank in the Asia-Pacific region.

Hitachi: A Global Strategy for Social Innovation

900+ BUSINESS UNITS

Hitachi has set its sights on combining expertise in two fields—infrastructure, such as power, and information and communications systems—to integrate “social innovation” throughout all of its business units.



THE CHALLENGE

In 2006, Japan-based Hitachi Ltd. committed to a new corporate strategy to stabilize business performance and create a foundation for long-term growth based on its vision of contributing to the solution of fundamental global challenges. The company had grown into 900-plus business units, serving diverse sectors, including power systems, appliances, transportation systems, advanced materials, construction equipment, data centers, and much more. Ultimately, Hitachi wanted to ensure that the new strategy aligned its businesses around the common theme of “social innovation,” and provided a platform for innovation and sustained growth. Hitachi asked BSR to help create a strategy for social innovation that would strengthen commercial performance and contribute to solutions to significant global challenges linked to sustainability.

OUR STRATEGY

We focused our efforts on the need to support Hitachi’s global strategy of increasing revenues outside of Japan, creating a truly global organization, and aligning innovation with society’s current and future needs. To do this, we designed a program that provided Hitachi with a wide range of perspectives on global environmental challenges from both inside and outside the company to sharpen the company’s focus on a key set of priorities in corporate responsibility and social innovation. It comprised three steps:

Finding gaps and doubling down on strengths: Given the breadth of Hitachi’s businesses (and corresponding impacts), we used the principle of materiality to highlight and prioritize issues that presented the most significant risks for the business, both at the corporate level and at the business-unit level, across all geographies. This allowed Hitachi to be strategic about addressing significant stakeholder concerns, while staying focused on important business opportunities.

Aligning management under one mission: Our business-unit-level assessment generated considerable dialogue among senior executives on issues most relevant to their business units. These conversations helped better define CSR for Hitachi and highlighted opportunities to focus innovation more directly on critical social and environmental needs.

Listening to society: BSR worked with Hitachi to design and facilitate two stakeholder engagement events in New York and Brussels, so that Hitachi executives could hear directly from opinion leaders about their expectations of Hitachi to address significant social and environmental challenges.

OUR IMPACT

Hitachi’s global CSR strategy now guides key investment decisions in the company’s business portfolio and helps focus Hitachi’s investments toward social innovation, which aims to fuse social infrastructure with information and communications systems. As a result, Hitachi strengthened its position in social innovation businesses, such as:

- » Information and communications systems, including data centers and cloud computing
- » Social infrastructure systems, including water, power, and transportation systems
- » Smart-grid technology
- » Lithium-ion battery development

Lower weight and higher efficiency lithium-ion batteries, and the advanced materials innovation required to create them, are needed to make advancements in green mobility and new energy production. Hitachi’s innovations in this area already led to the world’s first commercial hybrid train and batteries for use in hybrid and electric vehicles. The new global CSR strategy enables Hitachi to double down on efforts to deliver similar products and services that will address society’s biggest needs.

Nestlé Waters North America: Strengthening Dialogue with Communities



60 INTERVIEWS CONDUCTED

To assess Nestlé Waters North America's practices, BSR interviewed staff, local community members, and experts on watershed management, community engagement, and ecosystem restoration.

THE CHALLENGE

As the largest producer of bottled spring water in the United States, Nestlé Waters North America (NWN) faces a unique set of challenges related to managing a natural resource perceived by many as a public good. The company has faced criticism at its spring water sites in North America from community members who have two primary concerns: They want to ensure that NWN's water withdrawal does not have negative ecological impacts, and they want the opportunity to participate in decisions about their water resources. NWN asked BSR to develop a siting and community-commitment framework in order to proactively manage site impacts, incorporate increased local input into the company's water-siting process, and increase the transparency of the company's siting efforts.

OUR STRATEGY

BSR developed a phased approach of assessment, design, alignment, and piloting the framework. Our goal was to design a companywide framework for siting and community involvement that addresses NWN business objectives, includes full participation by and addresses the concerns of the community and government agencies, and is designed with the input of national stakeholders. To execute this project, we employed our experience developing community-engagement strategies for the extractives industry, as well as our expertise in responsible natural resource management. We also sought the involvement of community representatives and water experts throughout the life cycle of this project in order to ensure a high degree of credibility, transparency, and trust during the development of the framework.

First, we conducted interviews with company officials, national experts, and community members at several of NWN's U.S. sites in the Pacific Northwest and Maine to collect candid feedback—positive and negative—about the company's existing approach to community engagement and water stewardship.

BSR's findings served as the foundation for a two-day design workshop, during which NWN staff and experts in community engagement, conservation, and watershed management co-developed a siting and community-engagement framework based on past experiences and current and future expectations of key stakeholders and local communities. Following this, NWN field staff will test and revise the framework at potential U.S. spring water sites.

OUR IMPACT

At the time of this Report's publication, NWN was at the midway point of this engagement, and the company had already begun to take several important steps toward the development and implementation of the new siting framework. We believe that, if implemented, this will lead to a more consistently successful approach to engaging with communities and will build NWN's capacity to serve as a valued member of the communities in which it operates.

NWN's challenges point to more fundamental questions that we will attempt to address with the company in 2010: What expectations must a company meet as a responsible steward of water? If water is a human right, who has rights to access it, and how should access be regulated? How should NWN evolve its approach to community involvement in light of these questions?

Pfizer: Focusing, Refining, and Aligning CSR with a New Strategy

3 ACTION PLANS

BSR's materiality analysis is helping Pfizer focus its environmental sustainability strategy and design action plans for three key issues: climate, product stewardship, and water.

THE CHALLENGE

In late 2008, Pfizer began a process to refine its CSR strategy to better support the company's evolving business priorities and organizational changes. This presented a new opportunity to involve senior leaders and functions from across the company in guiding the company's approach to CSR. The company also wanted to leverage its strong environmental, health, and safety (EHS) programs to build a leading environmental sustainability initiative that would connect to and support its other CSR strategies. Pfizer's CSR leadership and its EHS team asked BSR to help guide the development of these new strategies, to support their global implementation, and to assist with its external reporting.

OUR STRATEGY

BSR worked with Pfizer to achieve three main objectives:

- 1 Create a more coordinated and effective approach to CSR management.** In addition to providing ongoing, strategic guidance to the company on how to improve global coordination of its CSR strategy, we developed recommendations on ways to expand board-level oversight of CSR and identify new opportunities to involve the board in CSR strategy and decision-making. BSR also worked to support the development of Pfizer's global CSR network that brings together Pfizer employees from around the world who have CSR-related responsibilities in an effort to localize their global CSR strategy.
- 2 Develop an environmental sustainability road map.** BSR partnered with Pfizer's EHS taskforce to develop a more strategic approach to environmental initiatives that will result in greater business and societal value. We began with an assessment and benchmarking of Pfizer's current practices by interviewing key staff with responsibility for Pfizer's sustainability programs. We then led a materiality analysis and workshop with senior business leaders to identify the environmental issues for which Pfizer could have the biggest impact. Based on these inputs, we worked with Pfizer to design a road map for environmental sustainability that aims to achieve cost efficiencies, product and brand differentiation, and,

most importantly, progress on some of the world's most pressing environmental challenges and their impact on global health.

- 3 Strengthen Pfizer's CSR reporting.** BSR also supported Pfizer's ongoing efforts to improve the measurement and communication of its performance on CSR issues such as access to medicine, research and development, patient safety, and corporate governance. Drawing on our knowledge of best practices in reporting, we guided the day-to-day development of Pfizer's CSR report, drafted the content, and identified opportunities for innovation such as the inclusion of stakeholder voices and more balanced commentary about challenges.

OUR IMPACT

Our work has enabled Pfizer to make significant progress in aligning internal CSR efforts, engaging colleagues throughout the organization, and improving transparency. There is now stronger board oversight and a global network of employees who meet regularly to share approaches to managing CSR issues in their regions. Our materiality analysis allows Pfizer to focus its environmental sustainability strategy on three key issues—climate, product stewardship, and water—where the company can have the biggest potential impacts, maximizing benefits to the environment and the company's bottom line. Specific action plans and strategies for each are now being developed.

Finally, Pfizer's most recent CSR report has provided readers with improved information to evaluate the company's performance on key issues and challenges, as well as a set of specific goals and metrics for the year ahead. In 2010, Pfizer will begin to incorporate CSR into the company's annual review that accompanies its financial report and will provide more information to all investors about how Pfizer integrates CSR into its business practices. By providing such information directly to all investors, the company is signaling to the broader investment community that management of CSR issues is a critical part of its long-term business success.

Walmart: Improving Supplier Energy Efficiency



20% MORE ENERGY EFFICIENT

Walmart committed to improving the energy efficiency of its top 200 suppliers' factories in China by 20 percent by 2012.

THE CHALLENGE

In 2008, Walmart committed to improving the energy efficiency of its top 200 suppliers' factories in China by 20 percent by 2012. With the aim not only to benefit the environment but also to help suppliers become more competitive, Walmart sought to replicate the success it has had in Europe and the United States in increasing supply chain efficiency. In China, however, the company found that its suppliers often prioritize overall growth over increased energy efficiency. As a result, operations managers commonly lack the necessary incentives and know-how to achieve efficiency improvements. An additional challenge in China is the lack of a developed professional energy-efficiency industry to provide equipment and data-measurement tools that make this process easier in other regions. To help overcome these barriers, Walmart enlisted BSR's help.

OUR STRATEGY

We focused our work on identifying and addressing suppliers' needs that prevented them from taking advantage of energy-efficiency opportunities. The most common needs we found were buy-in and support from senior managers and performance incentives for staff. Therefore, we centered our initial efforts on launch meetings to educate executives about the business opportunities associated with energy efficiency. Each meeting involved more than 300 executives and representatives from technical service providers.

Next, the BSR expert embedded in Walmart's global procurement headquarters in Shenzhen, China, created a data-collection tool that enabled factories to measure their energy use and a framework that allowed Walmart to verify the factories' performance reporting.

Our surveys of suppliers showed that many managers lacked the skills and knowledge needed to manage energy more effectively. To address this critical need, BSR's China Training Institute in Guangzhou led practical workshops focused on energy management for suppliers. We also worked with partners such as the Environmental Defense Fund to educate suppliers about the "low-hanging-fruit" opportunities in their facilities.

Finally, to enable better access by suppliers to energy-efficiency technology, we improved communication between suppliers and technical service providers through joint workshops and a common auditing tool that allowed for easier comparison between providers.

OUR IMPACT

By the end of 2009, more than 100 factories had improved energy efficiency by more than 5 percent, beating Walmart's expectations. The company also reported that dialogue between suppliers and technical service providers improved. This created new lines of accountability within supplier factories, leading them to pursue efficiency programs for energy and other resources in the future. And it put participants on track to profit from saving energy—the largest budget item for many companies—while playing a key role in addressing climate change.

Following the initial success of this commitment, in early 2010, Walmart unveiled a new, sweeping goal of reducing 20 million tons of greenhouse gas emissions in its supply chain over the next five years. Ultimately, these efforts set the stage for Walmart to expand its program to Africa, the Middle East, and South Asia, while providing an example of how other companies can leverage the power of their networks by building win-win efficiency programs with their suppliers.

HERproject: Investing in Women Workers for Health and Business Returns

50,000 WOMEN BENEFITED

HERproject, Health Enables Returns, has benefited approximately 50,000 women through projects with eight multinational companies, 30 factories, eight local NGOs, and multiple health-service clinics and local government departments.



THE CHALLENGE

The global economy has brought millions of women between the ages of 16 and 25 into employment in export factories all across the developing world. Because many of these women are migrants working long hours, they are often isolated from traditional support networks that can help them with challenges such as working conditions, proper compensation, and access to education, health care, and other social services. At the same time, there is a great opportunity to leverage their presence in global supply chains to improve the welfare of these women, many of whom are entering the formal economy for the first time.

OUR STRATEGY

Drawing on nearly two decades of supply chain expertise, we created HERproject, a factory-based program that links BSR member companies, their suppliers, and local NGOs in emerging economies to raise female workers' awareness of general and reproductive health and to improve their access to basic health services.

In 2009, we expanded the initiative to include projects in China, Egypt, India, Mexico, Pakistan, and Vietnam, working with eight multinational companies and eight local NGOs. Through the project, local NGOs trained women in 30 factories to become peer educators on issues including nutrition, personal hygiene, reproductive health, family planning, and sexually transmitted diseases. This approach allows peer educators to share information not just through formal trainings and new worker orientations, but also during lunch and commute times.

In addition to the peer education, we launched efforts to improve factory-based clinics and create links between the factories and local hospitals or women's clinics. So far, we have connected 12 clinics with local hospitals in China, India, Pakistan, and Vietnam.

OUR IMPACT

To date, HERproject has benefited approximately 50,000 women globally. The two main areas of impact are:

Improved health awareness: Following trainings in factories in Vietnam, 97.3 percent of women said they knew how to use condoms to prevent sexually transmitted infections, compared with 59.3 percent before the trainings. In Pakistan, safe pre- and post-natal care knowledge increased: The number of women who knew to get tetanus toxoid immunization during pregnancy increased from 30 percent to 83 percent, and the number of women who learned the importance of post-natal checkups increased from 50 percent to 92 percent. In Mexico, one factory saw a 38 percent increase in the number of respondents who had heard about, seen, or read about how to prevent diabetes.

Increased worker productivity: In Pakistan, women who improved their menstrual hygiene as a result of factory trainings reported a 25 percent reduction in poor concentration at work, 28 percent lower absenteeism, and 33 percent less difficulty in meeting production targets. Initial return-on-investment (ROI) analysis has confirmed that women in the factory worked an average of two-and-a-half more hours per month during the project period, representing an additional 615 days of work per year.

Thanks to our partnership with the Swedish International Development Cooperation Agency (Sida), we will further expand HERproject in 2010, launching initiatives in several new countries, with a focus on East Africa. More information is available in our 2010 report on HERproject, "Investing in Women for a Better World," at www.herproject.org.

Building the South China Energy Conservation Community



900 COMPANIES ANALYZING ENERGY DATA

As a result of the project, nearly 900 companies are using an online tool to report and analyze their energy data.

THE CHALLENGE

Today, China is one of the world's largest carbon emitters and consumers of energy, with the average Chinese factory using about 11 times as much energy as its equivalent in Japan. In 2005, the Chinese government began an aggressive five-year plan to improve the energy efficiency of the country's top 1,000 energy-consuming enterprises. These companies, which together account for one-third of China's energy use, each emit more than 450,000 tons of carbon dioxide per year. The companies include China's largest power plants, steel mills, petrochemical companies, and paper mills, among others.

By 2009, however, few companies had taken advantage of government incentives for energy-efficiency improvements, and many companies experienced significant challenges in meeting the targets: a lack of data analysis and reporting capacity, a lack of knowledge about the ROI for energy-efficiency improvement programs, and very little actionable guidance on how to make improvements. BSR partnered with the Guangdong Energy Conservation Center (GDECC) to help address these challenges and help Guangdong's top energy-consuming enterprises improve their efficiency.

OUR STRATEGY

BSR, with the support of the British Consulate General in Guangzhou, China, and in partnership with the GDECC, launched a two-year project to train factory staff in energy management and to develop tools to calculate the ROI for energy-efficiency retrofits. Our strategy included the following key components:

- » Launch of a six-month technical training curriculum to help energy managers find low-cost, high-ROI ways to reduce their energy consumption
- » Creation of an energy-efficiency web portal (www.chinajieneng.org) that incorporates energy efficiency and ROI calculators, energy-management information and guides, and current energy technology information from local sellers
- » Development of an online tool for companies to analyze and report their energy use and efficiency data on a quarterly and annual basis
- » Launch of the China Energy Efficiency Training Series for suppliers of leading international companies to collect best practices on energy and carbon efficiency for small- and medium-sized enterprises

OUR IMPACT

Since our energy-efficiency training series, all of the 25 top energy-consuming enterprises who participated in the training developed action plans to reduce energy use by 2010. For example, Guangdong's largest steel mill, a project participant, will install a heat-recovery system that will help it cut 100,000 tons of carbon dioxide per year.

Most of the 20 small- and medium-sized suppliers who participated in the program have also begun energy-efficiency projects, with some already reporting reductions in energy use. In addition, by the end of 2009, nearly 900 companies had begun using the online tool to report and analyze their energy data.

As China prepares to develop its 12th national five-year plan, the GDECC will share with local and national policymakers the successes and challenges of this program to make recommendations on which policies and targets to implement at the national level.

BSR Working Groups



APPAREL, MILLS & SUNDRIES

This forum of 10 leading apparel and retail companies works in partnership with strategic suppliers to jointly achieve fair, safe, healthy, and environmentally friendly working conditions.



BEYOND MONITORING

The Beyond Monitoring project creates systemic change in supply chains and materially improves the well-being of workers and communities globally.



CLEAN CARGO

The Clean Cargo Working Group is made up of 28 leading multinational manufacturers (shippers) and freight carriers and forwarders (carriers) that are dedicated to integrating environmentally and socially responsible business principles into transportation management.



ENVIRONMENTAL SERVICES, TOOLS & MARKETS

This group works with corporate members to explore the relevance of environmental services concepts to corporate environmental strategies.



HEALTH CARE

The international pharmaceuticals and health care sectors play an essential role in improving the quality of life for individuals worldwide by developing medicines and health care products and services that allow people to live longer, healthier, and more productive lives.



INFORMATION & COMMUNICATIONS TECHNOLOGY

From service providers and equipment manufacturers to software and consumer electronics businesses, this group connects with a range of Chinese and international ICT companies.



SOFTWARE

The Software Working Group seeks to define corporate responsibility priorities for the sector and identify the positive contributions its products and services can make to sustainability.



SUSTAINABLE WATER

This group is dedicated to responsible practices around water use and wastewater discharge in global textile and apparel supply chains.





Other Collaborative Initiatives



BETTER WORK BUYERS' FORUM

International buyers can connect and collaborate with key stakeholders in this forum to improve labor standards and competitiveness in global supply chains.



ELECTRONIC INDUSTRY CITIZENSHIP COALITION

BSR is a strategic partner of the Electronic Industry Citizenship Coalition, which brings together top ICT companies committed to improving conditions in the global electronics supply chain.



GLOBAL NETWORK INITIATIVE

This multi-stakeholder group of companies, civil society organizations, investors, and academics takes a collaborative approach to protect and advance freedom of expression and privacy in the internet and telecommunications industries.



PHARMACEUTICAL SUPPLY CHAIN INITIATIVE

This group of major pharmaceutical companies shares a vision of better social, economic, and environmental outcomes throughout the supply chain, including conditions for workers, economic development, and a cleaner environment for local communities.



SUSTAINABILITY OUTLOOK

A joint project with the Institute for the Future, Sustainability Outlook explores how the world is responding to sustainability challenges and the implications for the future of businesses.



VOLUNTARY PRINCIPLES ON SECURITY AND HUMAN RIGHTS

BSR serves as co-secretariat with the IBLF to the Voluntary Principles, a multi-stakeholder initiative that provides guidance to extractives companies on maintaining the safety and security of their operations within an operating framework that ensures respect for human rights and fundamental freedoms.

Visit www.bsr.org/working-groups for more information.

Actionable Research on Sustainability

Led by a core team and supported by experts from our global consulting practice, our research focuses on emerging sustainability issues and offers our members and the public practical solutions to the world's key sustainability challenges.

With an aim to produce applied research that can be put into action by business, we publish and disseminate our work via our website, training workshops, virtual events, and our weekly member-company newsletter, the *BSR Insight*. The publication of a report is often the beginning rather than the end of a project, with research frequently used to jump-start new initiatives. Following publication, we engage our members through seminars and discussions on the main recommendations of the report. These dialogues can lead to pilot projects that subsequently inform the next phase of our research, which ideally leads to wider application of the lessons across a broader swath of our membership—and beyond. The graphic on the following page illustrates this virtuous circle, using our research on water as an example.

RESEARCH & INNOVATION IN 2009

Our goal in setting the 2009 research agenda was to help business navigate the challenges of a reset world. Within our three broad themes of environment, governance and accountability, and human rights, we focused on ways for business to rebuild trust, develop systemic solutions to global sustainability challenges, and more effectively engage with government.

Under the environment theme, we explored in depth two important elements of a systemic solution to climate change: energy efficiency in the supply chain, and climate policy engagement. On governance and accountability, we focused on how business can rebuild trust through transparency, in particular by avoiding the practice of “greenwashing.” Finally, we sought to demonstrate the business relevance of human rights to companies in all sectors and help companies effectively manage their human rights impacts. In particular, we explored challenges related to technology through our report series “Human Rights in a Wired World,” which built on our experience working with ICT companies to address their human rights challenges.

We were able to leverage several research initiatives to launch projects and apply lessons and recommendations. In March and October, companies representing 14 different industry sectors attended our human rights workshops in New York and San Francisco. We also undertook pilot projects based on past research on energy efficiency, water-related risks, and ecosystem services, and we continued our work on tools to measure and assign economic value to ecosystem services.

In 2010, we plan to launch research on sustainable consumption, with recommendations on new ways for business to create value in a resource-constrained world. We will also explore what sustainable climate adaptation could look like for business, and we plan to publish a business guide for managing human rights, based on our 2009 training seminars.

More information about BSR's research program is available at www.bsr.org/research.

**SAMPLE RESEARCH CYCLE:
CORPORATE WATER
STEWARDSHIP**



**SAMPLE RESEARCH
PUBLICATIONS**



- » Aligned for Sustainable Design: An A-B-C-D Approach to Making Better Products
- » Communicating on Climate Policy Engagement: A Guide to Sustainability Reporting
- » Future Expectations of Corporate Environmental Performance: Emerging Ecosystem Services Applications and Tools
- » Human Rights in a Wired World
- » Moving the Needle: Protecting the Rights of Garment Factory Workers
- » Sustainable Investment in China 2009
- » Understanding and Preventing Greenwash: A Business Guide

SAMPLE WEBINARS



- » Emerging Trends in Corporate Water Stewardship
- » ESG in the Mainstream
- » Rebuilding Trust in Business
- » Sustainability Reporting on Climate Policy Engagement
- » The UN “Protect, Respect, Remedy” Framework: Corporate Social Responsibility and the United Nations
- » What to Watch at Copenhagen

“Green is no longer a hobby.
It is a necessity, and a
driver for innovation and
new business models.”

BSR Conference 2009 plenary speaker
Ben Verwaayen, CEO, Alcatel-Lucent



Providing Solutions for the Reset World

The BSR Conference 2009, held in San Francisco, explored sustainable business solutions in the context of the economic and social challenges brought on by the great recession, as well as the increasing urgency of surmounting environmental challenges. Under the theme of “Reset Economy. Reset World.” the Conference featured 42 sessions and training workshops, where nearly 1,000 participants debated how business can tackle a trio of key challenges—the global recession, accelerating climate change, and a collapse of trust in business—and emerge stronger.

Breakout sessions ranged from one-hour conversations with sustainability experts to interactive half- and full-day workshops covering topics such as public policy for CSR; human rights dilemmas for business; and product traceability in industries such as food and agriculture, ICT, and mining. Speakers included business leaders such as eBay President and CEO John Donahoe and Aramex International Founder and CEO Fadi Ghandour, and experts such as oceanographer and author Sylvia Earle and innovation guru John Kao.

One clear, consistent message throughout the Conference was the need for innovation. “Green is no longer a hobby,” said plenary speaker and Alcatel-Lucent CEO Ben Verwaayen. “It is a necessity, and a driver for innovation and new business models.”

Zhang Yue, chairman and CEO of China’s BROAD Air Conditioning, also addressed the innovative business models concept by asking, “How do we get away from ‘bigger is best’ and the imperative for always having more?”

Stressing the importance of collaboration, Hannah Jones, Nike’s vice president of sustainable business and innovation, said: “Sustainability-based innovation needs to be out there, open sourced, and shared.”

We will be further exploring the idea of innovation at the BSR Conference 2010, for which we have chosen the theme “Innovate. Integrate. Inspire.”

BSR CONFERENCE 2009 SAMPLE SESSIONS

- » Sustainable Consumption
- » The Role of Corporate Boards and Corporate Responsibility
- » Sustainability in a Reset World
- » Integrating Sustainability into Corporate Innovation
- » Think Big: Developing Systemic Answers to Sustainability Challenges
- » Environmental, Social, and Governance-Based Investment Trends
- » Modern Issues with Ancient Roots: Update on Indigenous Rights
- » The State of Sustainability in China
- » Improving Carbon Management in Your Value Chain
- » Environmental Performance for Consumers: Green Product Design

Download session summaries and video highlights from the BSR Conference 2009 at www.bsr.org/conference2009.

969

Attendees

From

40

Countries

79

Speakers

7,223

Connections via Conference
Networking Site

43,541

Downloads of Session Notes
in Six Months



Leveraging the Strength of Our Network

The global recession reinforced our belief in the power of networks. In 2009, businesses had both an increased urgency to achieve sustainability, and reduced resources available to do so. In this context, our global network of member companies served as a valuable platform for building more lasting solutions through shared learning and collaboration. We heard from many of our members that the ability to access information and analysis from BSR, and make progress on important issues via BSR working groups, was more important than ever in 2009.

Despite the difficult economic environment, BSR membership remained steady with 278 member companies at the end of 2009, the same number that we ended with in 2008. A full list of BSR members is available at www.bsr.org/member-list.

ENHANCING MEMBER VALUE

Throughout 2009, we focused on enhancing the value we offer our members. We launched our virtual event series, Sustainability Matters, hosting 11 member webinars attended by 365 participants. Events on “Human Rights Due Diligence” and “Preventing Greenwash” saw particularly high attendance. Audio recordings for most of our webinars are available in the Member Center on www.bsr.org. We also hosted a series of in-person events in all of our regions, covering topics such as sustainability trends in China, restoring trust in the financial services industry, carbon management in the supply chain, and human rights.

After our re-branding and a redesign of our content vehicles, we launched our revamped weekly email newsletter, the *BSR Insight*, in June 2009. The *BSR Insight* serves as a hub for BSR’s analysis on key sustainability topics, reports from conferences, and announcements of new tools, reports, and trends in the world of CSR. We also enhanced the Member Center with complete archives of the *BSR Insight*, Sustainability Matters webinars, and preferred access to the latest BSR reports.

Lastly, we established a formal member services team based at our San Francisco headquarters. Rather than creating a unit that operates separately from other teams, however, we chose to integrate member services activities more fully into our consulting, research, communications, and operations functions.

SELECTED 2009 EVENTS

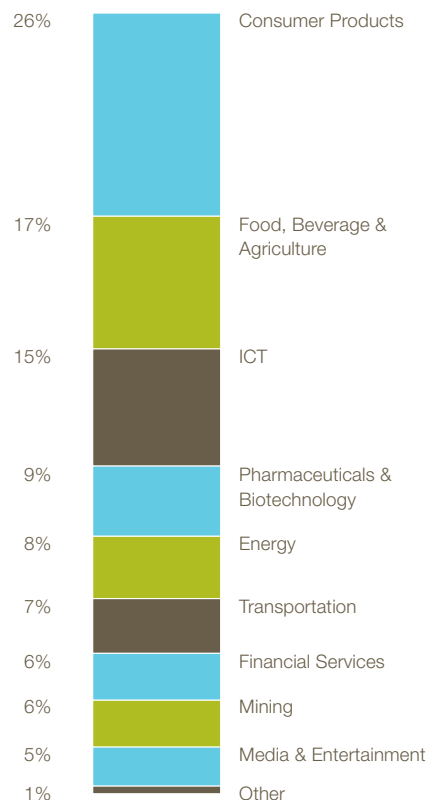
In addition to the BSR Conference and nearly two dozen BSR working group meetings, we held several events in all of our regions in 2009, including:

- » Sustainability Trends in China (London)
- » Business and Human Rights (New York)
- » Spotlight on Water (Paris)
- » The Consumer Products Industry in Challenging Economic Times (New York)
- » Restoring Trust in the Financial Services Industry (New York)
- » Business Success in a Reset World (San Francisco)
- » Effective Water Management in the Apparel and Textile Sector (Guangzhou)
- » Designing a Signature Philanthropy Program (Beijing)
- » Evolving the EHS Approach (Hong Kong)
- » Supply Chain Carbon Management (Paris)

Our Members

250+ companies | US\$6 trillion total revenue

MEMBER COMPANIES BY SECTOR*



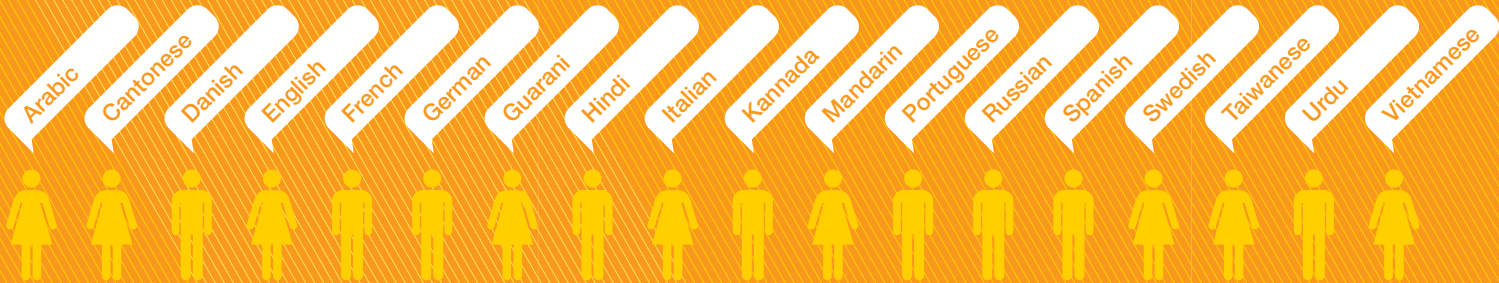
* Members with more than US\$1 billion in annual revenues

Our People

NATIONALITIES REPRESENTED BY BSR STAFF



LANGUAGES AND DIALECTS SPOKEN BY BSR STAFF





Our Challenges

3





We are proud of what we have accomplished in the past year. At the same time, we continuously examine how we can more effectively make progress toward achievement of our mission. Inevitably, we find areas where we can—and should—improve. We are aiming to make progress in the following areas in 2010, including some areas we cited last year that require ongoing attention.

Moving Past the Recession

BSR managed to come through a difficult economy well, given the circumstances presented by the global recession. However, we did face the need to make some challenging decisions in 2009. While we were able to maintain the same overall staff level at the end of 2009 that we had at the end of 2008, we eliminated five positions at midyear to sustain necessary growth in other parts of the organization. In light of the overall economy, meeting new business needs meant reducing staff where other needs had declined. We also reduced our expense base through a combination of salary and benefit reductions and postponement or elimination of planned investments. These decisions were not easy—they never are—and we appreciate our team's collective efforts to help BSR fulfill our mission in a challenging economic environment. We entered 2010 with a commitment to resume increases in staff compensation, as well as other important investments.

Despite the recession, our membership remained steady in 2009. Our interactions with our member companies made clear that they often faced the need to “do more with less.” One indicator, the average size of our consulting projects, shrunk for the first time in several years. And so while the urgency of pursuing sustainability remains strong, the resources available to meet our aspirations have, in many cases, been reduced. We met this challenge as many of you have: by focusing on what's most essential, shifting some activities from in-person meetings to virtual formats, and, importantly, focusing on initiatives that deliver clear business value.

Organizational Focus

At BSR, we serve a diverse set of member companies with large and varied agendas. In any given year, we take on a wide range of topics, from core corporate responsibility activities like reporting and stakeholder engagement, to emerging issues like green product design, ecosystem services, and sustainable consumption. This ever-changing mix is one of the most exciting aspects of our work—and it also presents a management challenge, as we aim to ensure that we have sufficient depth to deliver the quality that we and our members expect. As sustainability continues to mature, our member companies' expectations continue to grow—justly so—and we are determined to deliver the highest quality services to meet those needs.

Following a strategic review in the second half of 2009, we committed ourselves to strengthening our focus on our core services, rather than embarking on a number of new initiatives. This will enable us to augment our knowledge-management systems and staff development in the service of our member companies, and, ultimately, our mission.

In 2009, we also focused our communications efforts, implementing not only a new brand identity, but also expressing the BSR point of view on what's most important in achieving our mission. In surveys conducted over the past two years, our members have conveyed their desire to understand BSR's perspective on the road map for sustainable business. As a result, we have devoted more energy to presenting an actionable worldview in all of our communications—including this Report.

Global Integration

BSR continued to decentralize its team and opportunities in 2009, with the relative size of the San Francisco headquarters continuing to shrink in proportion to the entire organization. We continued to seek ways to improve our global integration and operational effectiveness. We improved our information technology infrastructure, addressing problems that had created unnecessary challenges for our team. We also continued to integrate our regional managing directors more fully into the management of the organization, to ensure that all regions' perspectives are part of all key decisions. Finally, we continued to enable staff exchanges between offices, and would like to be able to do more of this in 2010 and beyond.

Measuring Our Impacts

As we reported last year, we are not yet satisfied with our ability to assess our impacts systematically, a challenge we believe we share with much of the CSR world. The ultimate test of our success is the achievement of global measures related to our mission, with key metrics like the achievement of the MDGs and the limitation of climate change to an increase of 2°C. We also evaluate our impact based on our contribution to our member companies' business success consistent with core sustainability principles. We know we are doing our job whenever we contribute to responsible market entry, product innovation based on sustainability principles, or the achievement of multi-stakeholder consensus on tough issues. And while we are able to make qualitative assessments of our achievements (some of which are represented in this Report), we do not yet have an overall quantitative assessment on which we can rely.

Board Diversity

As we reported last year, voluntary departures from our board left us with only one woman director at the end of 2008. Two of the four directors elected in 2009, Roxanne Decyk of Royal Dutch Shell and Tae Yoo of Cisco Systems, improved our gender balance, which remains a matter of attention for our board as we consider new candidates. We also added our first director from the Middle East region, Fadi Ghandour of Aramex. We continue to seek representation on our board from Asia, given our strong footprint there.



Financial Statement

Following two years of significant growth, the impact of the global recession resulted in relatively flat revenues and expenses in 2009. Achieving this result required considerable effort on the part of our team, regarding both revenue generation and cost control.

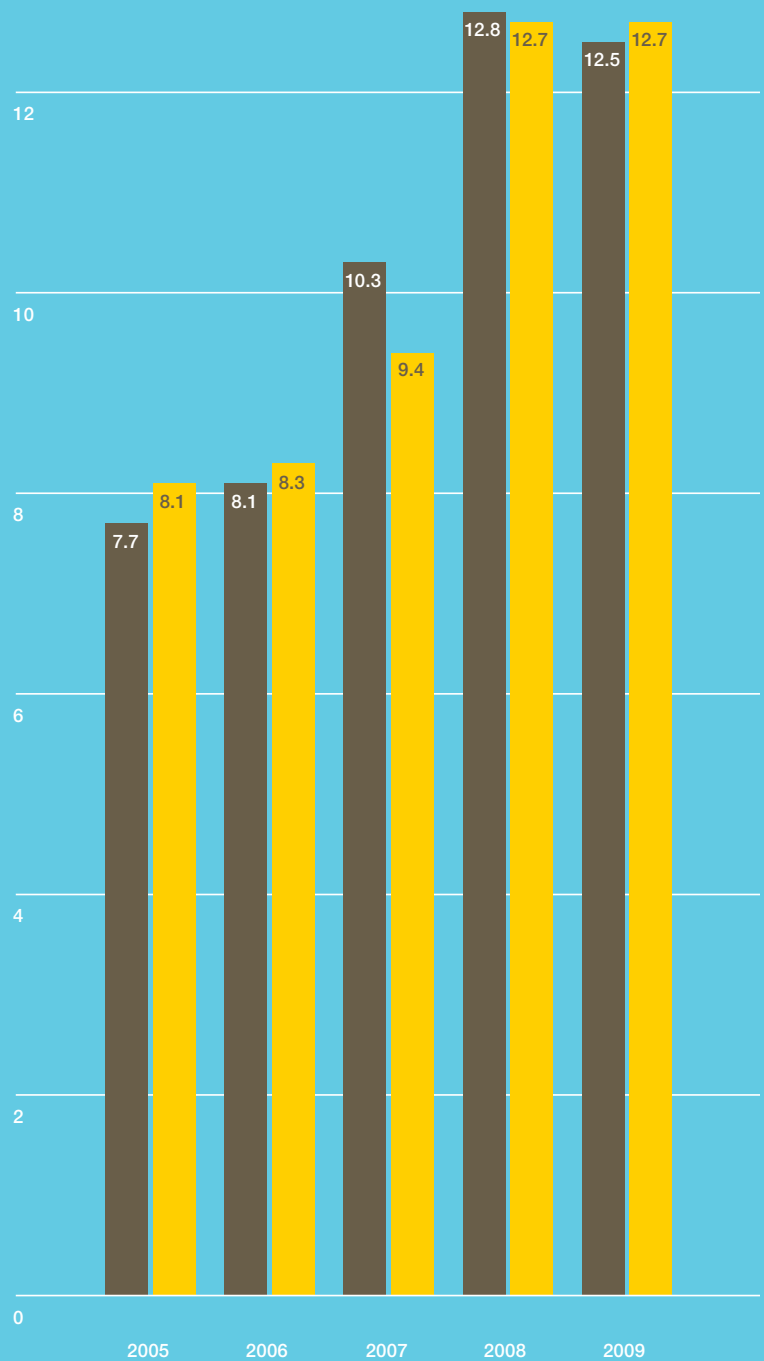
In addition, BSR undertook several cost-reduction measures in the second quarter of 2009, resulting in the reduction of both staff compensation and costs associated with discretionary expenditures on items like technology, travel, and communications.

While overall revenues remained just short of 2008 levels, grant revenues from government sources grew significantly, nearly doubling 2008 levels. Conversely, Conference revenues fell sharply, down 29 percent from 2008 levels. Membership revenues increased by 4 percent, and consulting revenues grew by 3 percent.

BSR Financial Performance (Five Years)
Visit www.bsr.org/report for full audited
financial statements.

Revenue Expenses

14 (in millions of US\$)



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A leader in corporate responsibility since 1992, BSR works with its global network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. With offices in Asia, Europe, and North America, BSR uses its expertise in the environment, human rights, economic development, and governance and accountability to guide global companies toward creating a just and sustainable world. Visit www.bsr.org for more information.

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Bob Corcoran, President and CEO | *General Electric Foundation*
Aron Cramer, President and CEO | *BSR (Ex-Officio)*
Roxanne Decyk, Executive Vice President of Global Government Relations | *Royal Dutch Shell*
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