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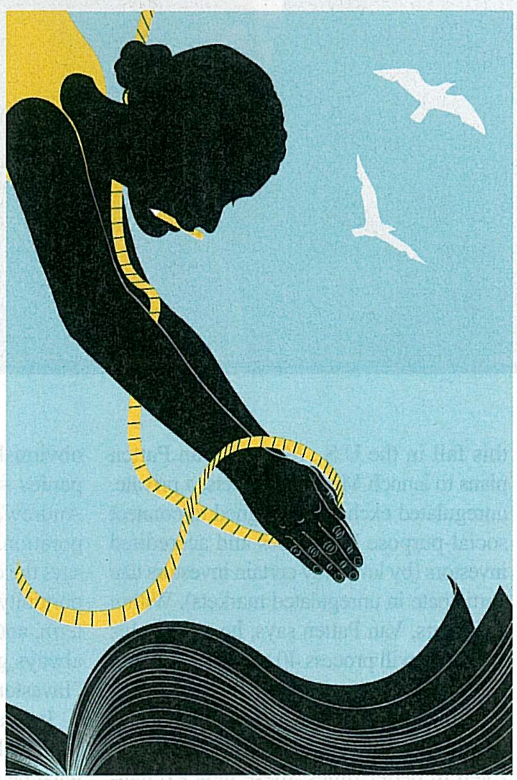
DIVING INTO THE DATA

Why full disclosure is crucial to measuring a company's environmental and social impact.

A NICE BONUS COMES WHEN YOU BUY A PAIR OF SHOES FROM THE SHOE COM- pany Timberland. A label on the box marked "Our Footprint" tells what percentage of your shoes was made with renewable energy, how much of them is free of toxic polyvinyl chloride (PVC) or made of "eco-conscious materials" and what portion of the shoebox is recycled (100 percent). The label also reveals how many trees the company is planting.



This kind of point-of-purchase disclosure is increasingly common. Packages in supermarkets bear the nutritional details about the food they contain, and restaurants in some cities must reveal the calories and nutritional content of their food. Shoppers at Whole Foods Market can choose ocean-caught fish over farm-raised.

As a socially responsible investor, I welcome this. What's published gets measured, and what's measured gets evaluated and improved. But even the best "micro" reporting on a product-by-product level can't take the place of macro reporting. (Timberland, I should note, reports well on both the micro and macro levels.)

Carbon emissions are one indication of the need to look at the big picture. Emissions per product are useful, but we have to ask about overall emissions, too. Ultimately, this is the only factor that matters for the environment. For instance, Japanese companies are required to report greenhouse gas emissions and set targets for reductions. But those targets aren't enforced, and companies stress emissions reductions per unit rather than overall corporate numbers.

One company however, has responded to criticism by gradually shifting its emphasis from per-unit to overall emissions: Sony. At the leading entertainment and technology firm, management believes demonstrating transparency and accountability will strengthen Sony's public image.

Responsible investors like transparency—and not only on the environmental front. Worker fatality data provide one measure of how well a company protects employees. But some companies avoid disclosing an overall number of deaths by reporting a smaller number for each subsidiary. In Europe, we discovered some cement companies reported no data on fatalities during certain years—an omission that sent up a red flag, causing our analyst there to dig deeper. She didn't like what she found: an increase in deaths. By seeking and requesting consistent data, social investment researchers establish a baseline that makes it possible to assess a company's improvement (or deterioration) over time. It's important work.

Thankfully, some companies are already doing an impressive disclosure job. The French auto parts company Valeo, for instance, reports on a variety of environmental indicators, including consumption of water and energy, generation and re-use of waste and emission of CO_2. Valeo integrates the data into its annual report rather than publishing it separately.

The Global Reporting Initiative (GRI) is one of the most significant efforts toward offering consistent data. GRI provides a framework for consistent reporting so "disclosure on economic, environmental and social performance [becomes] as commonplace and comparable as financial reporting."

Timberland has broken new ground in disclosing the impact of its operations on people and the planet. We thank them, and hope that someday soon the leadership at every company will do an equally good job of reporting on both the micro and macro levels. Until that day, the detective work that social researchers like ours carry out every day will remain time consuming but essential. The work enables us to compare one company's performance with another's, identify unacceptable behavior and give civil society the tools to pinpoint issues that need public action. Responsible investors use social research to create an infrastructure of transparency in reporting.

In fact, it's our mission.

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