

Outokumpu's 2010 annual report

Galvanised integrated reporting?

By Kathee Rebernak

Outokumpu delivers reams of information and talks up the benefits of integrated reporting. But does it work?

Finnish stainless-steel producer Outokumpu's latest annual report, which the company describes as an integrated report, is a hefty read.

The word that might best describe it is substantive. A new foray into integrated reporting, it is as notable for what it achieves: a credible, if incomplete, effort at integrating environmental, social, and governance (ESG) reporting with financial reporting. And while it could go much further towards true integration, the corporate reporting landscape, and thinking about sustainability, may have to undergo a sea change in order for that to become a practical reality.

Outokumpu produces cold- and hot-rolled stainless steel products for infrastructure and industrial use. It is certainly not a household name, but its footprint is significant: it serves the automotive, construction, transportation, chemical, appliance, and even food and beverage sectors, and turnover in 2010 was €4.2bn.

Nor is the footprint of the report itself insignificant. If printed, it would run to 235 pages. The online version offers a wealth of information, albeit sometimes difficult to find, on the company's business strategy, products, social and environmental impacts, and goals and performance on all fronts. What's more impressive is that, although the company has sustained losses for the past three years, it devoted considerable resources to tackling integrated reporting and seeking assurance for the report.

Other indicators of a commitment to raising ESG performance to a strategic level are that, despite a failure to return to profitability in 2010, the company increased headcount, R&D, and environmental investments. Less clear is how these efforts contributed directly to the company's sales and improved financial results in 2010.

Indicators of integration

The company's move towards integration of ESG and financial performance shows itself primarily in a key figures table and in the discussion of risks. The table includes the usual financial indicators as well as headcount, environmental investments, patent applications, injury rates, R&D, tax payments and CO₂ emissions.

To that list Outokumpu should add its "economic responsibility figures" – generation of value added and distribution of value added – as well as other key environmental indicators such as energy and water use and waste, and their concomitant savings or costs. Even

better, the table could be expanded into a dashboard that includes, in one convenient location, key performance indicators, material issues and risks, goals, and targets.

Outokumpu conducts a materiality analysis, starting with the identification of no fewer than 150 potential issues. Most of its material issues, however, fail to show up in the risk recitation required of public companies. The exceptions are "risks associated with people" and climate risk. To its credit, the company notes, albeit in a separate section, that it "monitors potential risks from a corporate responsibility perspective" and presents several of its identified risks together with their potential impacts on stakeholders, and mitigating responses.

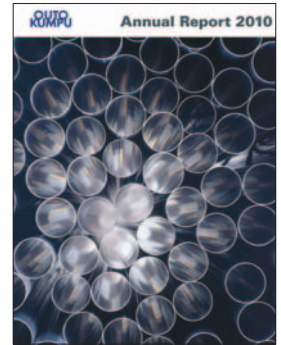
Though there has been much discussion recently of "integrated reporting", it remains undefined. Whatever the definition to emerge from the discussions of the International Integrated Reporting Committee, truly integrated reporting should involve making explicit the links between ESG performance and financial results.

Outokumpu alludes to these links in its report, and makes them explicit where it is rather easy to do so, for example in outlining cost savings from energy efficiencies. But it could go much further in describing for stakeholders how its sustainability efforts – for example, talent management and waste management – contribute concretely to its bottom line.

The schizophrenic – and still largely segregated – approach to reporting on financial results, risks, and material and ESG issues is less a fault of any company's thinking than the bifurcated nature of corporate reporting in general. Regardless of where we sit, we still tend to think of business issues and sustainability issues in separate boxes. Add in the perspective of legal counsel, and we have a potentially insurmountable roadblock to truly integrated reporting in the short, and possibly the medium, term.

Outokumpu manages quite well, however, within the current framework of corporate reporting. Its management is clearly thinking of ESG issues as business issues with financial impacts. For instance, the chief executive notes in his introductory message: "Improving safety contributes to improvements in quality, costs and on-time delivery – not to forget the wellbeing of people."

That employee wellbeing is presented as something of an afterthought speaks to the broader point, which must be made more and more by companies themselves. These are no less than business issues, and should be treated as such. ■



Snapshot

Follows GRI? Yes, at an application level of B+, and applies the mining and metals sector supplement.

Assured? Yes, by PricewaterhouseCoopers.

Materiality analysis? Yes

Goals? Yes

Targets? Yes

Stakeholder input? Yes

Seeks feedback? Yes

Key strengths?

Discussion of risks from a "corporate responsibility" perspective.

Chief weakness?

Failure to explicitly connect material issues to key risks.

Pleasant surprise?

Separate governance report provides detailed information on shareholdings and compensation for board and executive committee members.

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