

## Stakeholder panel

Our external stakeholder panel of CR experts reviews our CR Report and provides us with valuable insights into the expectations of key stakeholder groups.

PANEL MEMBERS

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KINGFISHER'S RESPONSE

### Stakeholder panel members



**Sally Uren (Chair)**  
Forum for the Future



**Freddie Woolfe**  
Hermes Equity Ownership  
Services Ltd



**Catherine Pazderka**  
British Retail Consortium



**Simon Duggan-Hill**  
Managing Director Henkel  
UK & Ireland



**Jo Daniels**  
Business in the Community



**Craig Bennett**  
Friends of the Earth



**Alisdair Gray**  
European DIY-Retail  
Association (EDRA)

All members serve in a personal capacity, rather than as representatives of their organisations. The Panel met twice during 2011, along with two further conference calls.

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### Stakeholder Panel process

Our Corporate Responsibility Report for 2011/12 was reviewed by an independent stakeholder panel of experts from the sustainability sector, from business and from the investment market. Their feedback provides us with valuable insights into the expectations of key stakeholder groups. This is the fifth year that we have invited a stakeholder panel to comment on our Report.

To assist the stakeholder panel in developing their opinion statement, we also commissioned URS Infrastructure & Environment UK Ltd to conduct a review of Net Positive and our CR Report. Their feedback is below.

The stakeholder panel review process included:

- an orientation teleconference call to familiarise panel members with the process and to introduce Net Positive
- a full day briefing on Net Positive including a visit to a B&Q UK store and a 'deep dive' workshop, focusing on innovation and customer engagement
- a teleconference call to discuss feedback on the draft CR Report
- a full day workshop, including meeting with the Executive team, to review the URS findings and draft the panel statement.

The stakeholder panel met with members of the Kingfisher senior management team to discuss CR and governance issues. These included Ian Cheshire, Chief Executive, Euan Sutherland, Chief Operating Officer and Nick Folland, Group Corporate Affairs Director: Net Positive. The panel also discussed data management processes with Kingfisher's CR team and our data auditors, Ernst & Young.

### URS review

A review of Net Positive and the 2011/12 CR report was conducted by URS to help inform the opinion statement developed by the stakeholder panel. The URS assessment focused on progress made on embedding corporate responsibility into internal programmes and practices using innovation and the recent sustainability strategy development process as examples. The development of community as one of the four pillars of Net Positive was also considered. The process used the AA100 Assurance Standard (AA1000AS) as a guide, particularly its three principles of inclusivity, materiality and responsiveness. The review involved the following:

- interviews with 11 individuals across the Group, including five operating companies (Brico Dépôt Spain, B&Q UK, Castorama France, Castorama Poland and B&Q China) and the Kingfisher Sourcing Organisation
- a thorough review of the draft Corporate Responsibility Report, assessing qualitative claims made and reviewing supporting evidence where required
- presenting factual findings and conclusions to the stakeholder panel, to inform development of the opinion statement.

URS also facilitated the meetings, workshops and conference calls with the stakeholder panel, including capturing feedback.

Members of the URS project team were not involved in the creation of our CR Report or the development of Net Positive. This ensures that the team can provide an independent review of our sustainability programme and report to the panel.

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### Bold ambition

The Panel is delighted to see that Kingfisher's 2011 CR report introduces a new strategy which signals the company's intention to become a pioneer in sustainable business. Net Positive forms a pillar of the overall 'Creating the Leader' strategy which is designed to deliver a leadership position for Kingfisher across all aspects of its operations. Critically, Net Positive and its supporting targets have not been crafted by the central CR function in isolation: in conjunction with Kingfisher's leadership, the operating companies have also submitted their own plans and suggestions for how to make Net Positive a strategic reality. The Panel recognises the formation of this strategy has been a key focus for the company this year.

### Engaged leadership

As part of the assurance process, the Panel spent time with Kingfisher's CEO, COO and Corporate Affairs Director. The degree of engagement and animation around Kingfisher's CR programme and Net Positive strategy was impressive. This personal commitment from Kingfisher's leaders will be critical to the success of Net Positive.

### Report highlights

As in previous years, Kingfisher's CR report is thorough and covers the majority of the company's material CR issues well. There is also a good balance of narrative and hard data.

The report describes the great progress made in timber, with the volume of timber sold from proven well-managed forests or recycled sources now at 86%. In addition, in most cases, the performance data from individual operating companies shows an improved level of performance from last year.

There has also been a step-change in engagement on sustainability issues between the corporate centre and the operating companies. There is evidence of much more co-ordination, with areas such as property benefiting for the first time from a group-wide strategy.

There are seeds of innovation sprinkled throughout the report. From the loft clearance trials in the UK, where B&Q offered a full loft installation service including clearance to the development of 'closed loop' products, to Les TrocHeures, Castorama's skill swapping website, there are examples of Kingfisher beginning to bring both sustainable and collaborative consumption closer to reality. Kingfisher is also developing new business models which will support these new, more sustainable retail models. Establishing the Future Homes business, to act as a delivery vehicle for the UK's Green Deal, signals a business that is serious about aligning value creation with meeting the wider needs of society. The challenge is to scale up this innovation to match the scale of the ambition expressed in Net Positive.

The report is also honest. There is a clear recognition of the enormous challenge ahead in making Net Positive a defining feature of how Kingfisher does business. The cultural challenges are clear, as are the technical ones. The Panel encourages the business to maintain this honesty and humility, which lends much credibility to its endeavours, as it embarks on delivering Net Positive.

### Key challenges

#### Matching targets with ambition

While the Panel fully accepts that the 50 targets published in this report, designed to support Net Positive, are very new, we feel that there are differing levels of ambition within these targets. A number of the targets, for example around energy in homes, timber and sustainability accounting, are stretching targets worthy of a business with pioneering levels of ambition. However, we feel that in some other areas, notably consumer and supplier engagement, more work is needed. These targets, as currently expressed, do

not, we feel, represent leadership despite these areas being core for the strategic impetus and success of Net Positive. In particular, there are no targets which address product use, which is often where significant CR issues for a retailer can manifest themselves. The community targets also need further attention.

The Panel would like to see the business review these targets within the next 12 months to ensure that all 50 targets have the same, high level of ambition.

## Addressing the disconnects

Last year the Panel reported a significant disconnect between Kingfisher's aspiration to lead on sustainability and the in-store experience, where apart from the tiny minority of eco-stores, there was little visible evidence of Kingfisher's ambition to make sustainable living easy. A year on, our store visit showed limited progress in this area. Aside from the odd label on product origin, occasional point of sale information and in-store promotion around energy or water efficiency, the store format and signage does not make it easy for customers to make sustainable choices or encourage behaviour change.

Given the centrality of consumer engagement to Kingfisher's Net Positive strategy, the Panel was disappointed to see such little progress. Rather than wait another 12 months to see evidence of sustainability coming alive in Kingfisher stores, the Panel has challenged the business to show significant progress in this area and report back in the next 6 months.

The Panel also discussed the disconnect between the ambitions around sustainable sourcing and product innovation and the operating environment of commercial teams. Based on input received as part of this assurance process, Kingfisher's commercial teams and buyers are still working within an environment where a key driver is cost reduction. Occasionally, sourcing a more sustainable option for longer-term benefits may mean short-term impacts on margins. Kingfisher recognises the importance of creating an enabling environment for commercial teams to make new and different decisions. The Panel would like to see this aspect of strategy implementation accelerated in order to shift behaviours from transactional to transformative.

## Addressing inconsistencies in performance

The Panel felt that the reported performance in the supplier section was both opaque and patchy. Sourcing tens of thousands of products from across the globe is clearly a challenge, but the Panel is concerned that the indirect sustainability impacts associated with supply chain activity are not currently demanding the same level of attention as direct impacts, particularly given that supply chain impacts can often be orders of magnitude greater than direct operational impacts. This challenge is made even more pressing by the present lack of product commonality across the business units. The Panel urges Kingfisher to ensure that efforts to use KSO to bring rigour, scrutiny and efficiency to sourcing are redoubled.

The Panel also remains concerned that the gap between performance of the operating companies should not widen. The Panel fully accepts that local differences in legislation and consumer attitudes to sustainability contribute to different implementation speeds in different geographies. However, the Panel also believes that good governance and engagement from the centre can minimise these differences. The Panel is keen to see that the increased engagement between the corporate centre and operating companies translates into greater consistency in performance.

Both these issues were raised last year: the Panel will be disappointed if greater progress is not made in the coming 12 months.

## Shaping the external context

For Net Positive to succeed, the business environment will need to be configured in such a way that companies are rewarded for cutting their negative impacts, boosting their positive impacts and bringing goods and services to market that provide solutions to a suite of pressing environmental and social issues. The commercial case for Net Positive today is very clear: for example, Kingfisher's spend on timber is significant, therefore securing a sustainable, long-term supply of this key commodity is therefore essential to its continued profitability. It is also certain in the future, that in many parts of the world, domestic energy bills will continue to soar. Helping consumers cut these bills is a smart business proposition today.

However, the transition to a sustainable economy and business environment is a long journey, with investors, consumers and policy makers at varying levels of understanding and engagement on the topic across the globe. The Panel encourages Kingfisher to help raise awareness amongst these critical stakeholder groups, as the indirect benefits to Kingfisher, in terms of providing an enabling backdrop for success, are significant. In the first instance, the Panel would like Kingfisher to begin to report the progress of Net

Positive in terms of financial value creation to the business. The Panel also urges Kingfisher to continue to work in partnership with other businesses, suppliers and civil society groups to tackle the larger issues that are best served by collaborative action.

## Conclusion

The Panel wants nothing more than to see Net Positive succeed. In the absence of coherent government policy on sustainability issues, particularly at a global level, the changes we need to see will, in the short term at least, come from pioneering businesses such as Kingfisher. We feel privileged to be accompanying Kingfisher on its journey, and remain hopeful that it will continue to set the pace for other companies in the area of sustainable business by Creating the Leader.

We would like to offer two final reflections for Kingfisher to consider. First, accept that mistakes will happen. Much of what Kingfisher aims to do is difficult. Examples of successful consumer behaviour change campaigns are few and far between: Kingfisher will need to tread new ground and there will be miss-steps. This is to be expected, and shouldn't be a reason to slow progress or commitment in this critical area. Second, Kingfisher should view Net Positive as a significant change programme which will require transformation, from its business model to its culture. This won't be easy, but the prize is huge – a sustainable business and progress towards a truly sustainable economy.

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### Kingfisher's response to the Stakeholder Panel statement

We would like, first, to thank our stakeholder panel members this year for their thorough review and encouraging feedback to our new Corporate Responsibility (CR) report for 2011/12. The Panel provides an independent, expert view on our Report and our progress in sustainability. The Panel also gives us constructive feedback on areas that need clarification or improvement.

In this response we highlight some key areas where we are already working to address the main themes identified by the Panel. A full response and detailed progress update will be provided in next year's Report.

[Our response to the Stakeholder Panel's 2010/11 recommendations](#)

### Net Positive feedback

Our work in sustainability has significantly transformed within the business during 2011/12 with the introduction of our new sustainability strategy, Net Positive. This strategy now takes us through to 2020 and commits the business to becoming Net Positive – meaning that we aim to give back more than we take out.

We appreciate the recognition from the Panel that the creation of Net Positive is a turning point for Kingfisher that builds upon our heritage and is firmly grounded in our operating companies. Our new measurement targets, the Foundations, are improving the quality of our data and this has been acknowledged by the stakeholder panel.

We aim to be open about where we need help and the mistakes that may be made along the way. This level of transparency has been supported by the Panel. In the existing report we have been open about our position and action taken after press reports on two separate issues regarding timber and peat. We welcome the Panel's encouragement to continue to be open about mistakes.

We also recognise the Panel's comment that there is still work to do to ensure that all our targets match our strong ambition. We are currently reviewing these targets to see how they fit with our new net positive goals. This will involve a review of the three-year plans that were created in 2011 and, where relevant, the targets will be updated for next year's report. We are developing a scorecard that will measure company performance against the 2020 Net Positive. This will be supported by a second phase of work on 'sustainable accounting' to understand the value that our sustainability work contributes to Kingfisher's bottom line. We hope that this will strengthen our business case, both internally and among investors, and we will report on this further in 2013.

### Operating companies and culture change

We recognise that becoming a Net Positive business will require a cultural shift within Kingfisher and among our operating companies and that, as an international company, this will take time and effort. We have to recognise the different state of development sustainability has reached as a concept in the diverse range of countries in which we operate. The Panel has emphasised the need to move from "transactional to transformative relationships". We will be working to make sure that our colleagues both in stores and commercial teams are informed about how Net Positive can be built into their work with customers and suppliers.

We will also continue to close the gap in performance on sustainability among our operating companies through a combination of measures including six monthly reporting via the Foundations, reviewing three-year plans and engaging with the network of CEOs around the business. Net Positive will be a board level conversation with all of our operating companies.

### Working with suppliers and our partners

Further work will be done on supplier engagement and standards within our supply chain during 2012 as we recognise that there are areas where we can strengthen our stance. Our goal is to implement a new Group-wide ethical assessment tool. We also have the opportunity to create consistent ethical and environmental standards within our supply chain through the new range of 11 common brands that are being rolled out.

## Customer engagement

We have many examples of customer engagement around the business from Brico Dépôt France's eco product labels for customers, to B&Q UK's energy-saving centres. From these and other examples we are developing our thinking about the right way to communicate sustainability to our customers. We will be sharing this later in the year. We will also be launching a project together with the World Economic Forum and some other major retailers on 'Engaging Tomorrow's Consumer' and will report back on this next year.

We are delighted to accept the Panel's challenge and will report back to them in November about our work on customer engagement.