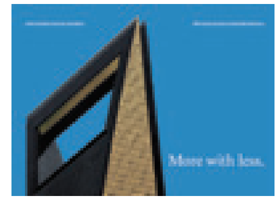
United Technologies Corporation 2008 annual report

Joined-up reporting

By Aleksandra Dobkowski-Joy

UTC shareholders get a little extra in this year's integrated financial and non-financial report



United Technologies Corporation's report theme of "more with less" aptly describes the company's transition to integrated annual financial and corporate responsibility reporting. With its all-in-one approach, UTC reaches out to two audiences (stockholders and corporate responsibility adherents) with a wider range of information than either had previously received.

Such multifunctional efficiency is the order of the day. Report narratives abound with descriptions of product and service innovations that claim multiple economic and environmental benefits.

In a prominent example, the letter to shareholders highlights UTC's geared turbofan engine, which cuts fuel consumption (and so costs) by 12% and reduces nitrogen oxides emissions and noise by more than 50% each.

The company highlights how the purchase of more efficient and environmentally friendly technologies reduces cumulative impacts over the considerable life-span of UTC products. Here, the dual nature of the report allows readers to consider product longevity in light of UTC's revenue-generation potential: 40% of UTC's revenues come from aftermarket transactions, while original equipment manufacturing accounts for 60% of revenues.

Trimming back

A slim nine pages of text and charts take the place of last year's 28-page stand-alone corporate responsibility report and, overall, the shift is a good one. UTC has been reporting on corporate responsibility for long enough (eight years, counting initial environment-only reports) that it is secure in its core issues and can offer a tailored set of company-specific performance metrics. Additional information on UTC's website rounds out the printed report.

The report includes a two-page corporate responsibility "at a glance" spread that lays out UTC's priority areas (governance, environment, customers and suppliers, products, people and communities). The selection of 12 key performance indicators, mostly shown as absolute figures, illustrates UTC's balanced approach to sustainability. Greenhouse gas emissions metrics, safety statistics and corporate governance quotients make an appearance, as could well be expected. But UTC also includes here the total degrees earned by UTC employees under the employee scholar programme. By featuring this unexpected indicator, UTC highlights the importance of attracting and retaining the best talent available.

Where UTC gets into some trouble is in its attempt to succinctly profile the operational and corporate responsibility achievements and challenges of its various businesses. Each business unit – Carrier, Pratt & Whitney, Otis, UTC Fire & Security, Hamilton Sudstrand, Sikorsky and UTC Power – is allotted only two columns of text on a single page. UTC's attempt to jam information into such a tight layout becomes noticeably laboured, to the detriment of reader comprehension.

For example, Carrier's profile includes a puzzling corporate responsibility related statement: "Tadiran Appliances in Israel initiated a voluntary retrofit campaign related to some of its high wall air conditioners that could pose a risk of fire under certain circumstances." It is unclear whether the retrofit is considered an achievement, by way of introducing more energy-efficient equipment, or a challenge, because of the risk of potential fires. Other business profiles display similarly dense and potentially confusing text, suggesting that UTC should either expand layout in the future or cut down on the number of highlights in each section.

Despite its bundling of financial and corporate responsibility information under the same cover, UTC still keeps core metrics separate. The financial "at a glance" page displays a typical suite of measures: revenues, cash flow, earnings per share, debt to capital ratios; all with nary a mention of the impact of corporate responsibility on these metrics.

UTC should explore ways to incorporate more explicit linkages between financial and corporate responsibility performance metrics. For example, research and development investment could be broken down between standard investment and funds targeted towards solutions that specifically deliver environmental benefits.

Similarly, total revenues could be segmented to indicate revenue directly attributable to products and services chosen by customers because of their corporate responsibility components. A particularly relevant indicator in 2009 could be a measure of the impact of corporate cutbacks a result of the economic downturn.

UTC's effort is a good start, but it does not quite make the cut for true integrated reporting. Now that financials and corporate responsibility are in the same book, the next step would be getting them on the same page. ■

Snapshot

Follows GRI? No.
Assured? No.
Materiality analysis? No.
Goals? Yes.
Targets? Yes.
Stakeholder input? Yes.
Seeks feedback? Yes.
Key strength: Tight focus on company-specific key performance indicators.
Chief weakness: Some information too condensed, leading to confusing text.
Pleasant surprise: Ease of corporate responsibility website navigation.

UTC should explore ways to incorporate more explicit linkages between financial and corporate responsibility performance

Aleksandra Dobkowski-Joy is a principal at Framework:CR.
adjoy@frameworkCR.com
www.frameworkCR.com