

Governance and integrity

Guiding our growth

(includes GRI standard disclosures 3.6, 3.9, 4.1, 4.8, 4.9, and 4.12)

During 2011, ABB released ambitious new growth targets for our business, aiming to increase revenues for 2011 to 2015 organically at a compound annual growth rate of 7–10 per cent, with the potential for an additional 3–4 percentage points of growth by acquisition.

The achievement of such targets will be challenging, and is supported by programs in all areas of our business. These programs include work to ensure that sustainability considerations and values are a seamless part of our business practice along the value chain. Growth on this scale will also not be possible unless our behavior is firmly guided by our business principles of responsibility, respect and determination.

Standards of business conduct: ABB integrity program

ABB sets high standards of integrity, which are expected of every employee and in every country where we do business. We use a systematic approach, supported by tools and processes and a zero tolerance policy for violations.

Integrity is driven by the businesses with division heads and financial controllers regularly reviewing and reporting on integrity developments. The divisions' business performance evaluations also include consideration of integrity.

The ABB Code of Conduct is the integrity framework that describes the behavior expected of employees and stakeholders. It contains practical instructions to help employees in their day-to-day work and is underpinned by standards and policies covering issues such as corruption and illegal payments.

The Code of Conduct has been translated into 45 languages. All current and new employees are required to take Code of Conduct face-to-face and e-learning training, and to acknowledge their commitment to adhere to the Code of Conduct. Managers also have to re-acknowledge the Code of Conduct on a regular basis.

Multiple channels are available to all employees to report integrity concerns. A multilingual Business Ethics Hotline is available 24 hours per day, seven days per week, run by a third party. Calls are treated confidentially and people with information can choose to remain anonymous. A Stakeholder Hotline is available to our external business partners.

ABB also has an Ombuds program as an additional route for integrity reporting. The ABB Ombudspersons are respected, experienced business colleagues available for discussion and to provide confidential guidance.

ABB investigates all potential integrity concerns and cooperates fully with law enforcement agencies. There is a strict zero tolerance policy for violations of the law or the ABB Code of Conduct, which is enforced through systematic disciplinary actions.

Overall, the ABB integrity program is supported by a team of some 330 employees, full-time and part-time, at headquarters and around the world.

Other policies, principles and procedures

We have also implemented environmental, social, human rights, and health and safety policies and a Supplier Code of Conduct. These [policies](#) include references to international standards to which they relate. For example, the human rights and social policies draw on the Universal Declaration of Human Rights, the ILO Core Conventions on Labor Standards, UN Global Compact, the OECD Guidelines for Multinational Enterprises and the Social Accountability 8000 standard.

Sustainability governance

For ABB, sustainability is about balancing economic success, environmental stewardship and social progress to benefit all our stakeholders; to truly contribute to a better world.

Ultimately, every ABB employee is responsible for sustainability. The commitment of line managers to implement our objectives is key to achieving ABB's sustainability and business goals.

As part of our 2011 review of sustainability strategy, in alignment with the Group strategy review, we reinforced ABB's sustainability governance structure. A Sustainability Board, comprising the ABB Executive Committee, will now be accountable for the sustainability performance of ABB. The Sustainability Board will oversee sustainability policies and programs, to ensure consistency with business goals and ambitions and will monitor progress towards our targets.

The ABB Sustainability Affairs organization is responsible for the development and coordination of policies and programs covering health and safety, environment, corporate responsibility, and security and crisis management. Sustainability Affairs reports directly to Executive Committee member Gary Steel.

A network of sustainability specialists worldwide reports to the Sustainability Affairs management team. In countries where ABB entities have or could have significant sustainability impacts, we have appointed country sustainability controllers, country health and safety advisors and country security managers responsible for ABB's sustainability management program and for gathering the data consolidated in this report. Where needed, regional responsibilities have also been assigned.

The country and regional specialists are supported by local sustainability officers and health and safety advisors. Overall, the sustainability network is supported by a team of some 800 employees, full-time and part-time, at headquarters and around the world.

Sustainability risks and opportunities are also investigated in coordination with business divisions and other Group functions, e.g. Mergers and Acquisitions (due diligence), Real Estate and Insurance (real estate liabilities, security and site risk), Internal Audit and ABB's bid evaluation committee (customer and project risk assessments).

We aim to cover all ABB Group companies, wholly owned subsidiaries and majority-owned joint ventures worldwide that might have significant sustainability impacts, with ABB's formal sustainability reporting system. Integration of Baldor Electric Company, acquired in January 2011, is continuing. For 2011, we have collected environmental data for Baldor covering water, energy and waste parameters. Data collection for other environmental parameters, health and safety and corporate responsibility will be implemented during 2012.

The data in this report relating to social performance cover 89 percent of ABB employees, whereas data relating to environmental performance cover 85 percent of employees. The environmental performance of the remaining 15 percent of employees, located in non-manufacturing entities without significant impacts, is covered by estimated data.

We use three computerized data reporting questionnaires to measure and collect performance data throughout the Group via the ABB intranet – an annual social report from every country, an annual environment report from every site and a monthly health and safety report from every country.

Externally developed charters, principles and initiatives

ABB subscribes to externally developed charters and principles for sustainability management. Applying such principles is helping ABB to make progress in core areas. These charters and principles include the International Chamber of Commerce Business Charter for Sustainable Development, which ABB signed in 1992, and ISO 14000 standards and technical reports.

ABB has adopted ISO 14001 for environmental management systems; ISO/TR 14025 for Environmental Product Declarations; ISO 14040-45 for Life Cycle Assessments; and ISO 19011 for environmental auditing of organizations.

ABB has incorporated the principles of OHSAS 18001, the International Labour Organization (ILO) guidelines on occupational health and safety management systems, and the ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases into its health and safety program.

ABB facilities are encouraged to implement integrated management systems for environmental and quality issues, and for occupational health and safety. Almost 250 sites now use integrated systems, many of which have been externally certified.

ABB is a signatory to the World Economic Forum's "Partnering Against Corruption Initiative" (PACI), signed by 170 companies committed to strengthening efforts to counter corruption and bribery.

In addition, ABB has taken note of the UN Guiding Principles on Business and Human Rights and is using its recommendations to assess expectations of corporate behavior.

As a founder member of the United Nations Global Compact, ABB has been closely involved in its development. ABB's understanding of human rights and day-to-day business benefits from involvement in such organizations.

Other GRI indicators

SO2 Business units analyzed for corruption risks

ABB's internal auditors carry out an annual risk assessment as the basis for their audit planning for the following year. Anti-fraud risk assessment is part of this. ABB's internal auditors also carry out anti-bribery compliance reviews of business units and countries globally. In these reviews, ABB's internal auditors review business processes, accounts and balances, and test transactions to assess the robustness of controls and identify possible violations of ABB's anti-bribery procedures. In addition, every significant customer project is the subject of a risk review process, which also covers corruption risk considerations.

SO3 Employees trained in anti-corruption procedures

Substantially all employees have completed training on ABB's Code of Conduct. In addition, approximately 95 percent of all employees have received training on anti-corruption procedures.

At the end of 2011 into the beginning of 2012, ABB started expanding its Ombuds program to increase geographical coverage, now covering 47 countries with over 60 Ombudspersons.

SO4 Actions taken in response to corruption

ABB applies a strict zero tolerance policy to combat corrupt payments. Every incident is sanctioned and may include termination of employment. In 2011, ABB identified three incidents of corruption of a government official (two of which are still under investigation). During the year one employee was dismissed.

SO5 Public policy and lobbying

ABB provided input to the European policy process on transmission, distribution and on smart grid technologies, as well as on all aspects of resource efficiency and industrial competitiveness. ABB made a strong case for the further integration of the European energy market and for the necessary interconnections. ABB supported the pursuit of ambitious binding targets for renewable energy sources, as well as their integration in the power grids in European Union energy policy. ABB helped advance and create the necessary regulatory environment for offshore wind and solar energy projects and lobbied for the promotion of available "green" technologies through procurement and in international agreements to achieve a low carbon economy. The year was particularly important for long-term issues, such as the multi-annual financial framework, the budget allocations for R&D and for the European Investment Bank policy guidelines. All these activities supplement ABB's involvement in initiatives of the relevant business associations such as BusinessEurope, EURELECTRIC, European Association of the Electricity Transmission and Distribution Equipment and Services Industry (T & D Europe), European Energy Forum and Bundesverband der Deutschen Industrie.

In the United States, a partisan government slowed the development of energy efficiency and climate policy legislation. Continuing funding from the now-expired Stimulus Package advanced technology and demonstration programs in the areas of renewables, electric automotive design, and industrial design. New regulatory regimes were introduced in the emissions reduction area. In this environment, ABB worked to promote our energy efficiency, smart grid, and renewables portfolios through active lobbying input and participation through two key business/manufacturing organizations, the Business Roundtable and the National Association of Manufacturers, and our lead trade group, the National Electrical Manufacturers Association, where ABB holds key leadership roles.

In China, ABB supported government activities in the area of energy conservation and environment protection in line with China's 12th Five-Year Plan. ABB continued to contribute our products with the latest technology, introducing our worldwide solutions and expertise in smart grids and energy efficiency solutions to government agencies and key stakeholders.

SO6 Political contributions

Under ABB's Code of Conduct, contributions to political parties, politicians and related institutions are to be made only in exceptional cases and only with the approval of the Chief Integrity Officer. In 2011, ABB Inc. in the United States made employee-raised donations through its Political Action Committee (PAC).

SO7 Legal actions for anti-competitive behavior

ABB has been cooperating with various antitrust authorities regarding their investigations into certain alleged anti-competitive practices in the gas insulated switchgear business, the power transformer business, the cables business, and the flexible alternating current transmission system (FACTS) business. For further information, please refer to the Commitments and contingencies note in the Notes to the Consolidated Financial Statements contained in the ABB Group Annual Report.

Compliance – society

SO8 Significant fines and sanctions for non-compliance with laws and regulations

ABB has not faced any significant fines or sanctions for non-compliance with laws and regulations in 2011. For further information, please refer to the Commitments and contingencies note in the Notes to the Consolidated Financial Statements contained in the ABB Group Annual Report.

PR4 Non-compliance concerning product information and labeling

During 2011, ABB did not receive any injunctions or complaints related to product information or labeling.

PR8 Complaints regarding breaches of customer privacy

One complaint regarding breach of customer privacy was received during 2011. An internal communication related to new business from a customer was communicated externally without prior customer approval. ABB's process for review and approval of articles for external release specifically includes a requirement for customer review and approval where references to the customer are included in the article. This process has been re-communicated and reinforced with ABB personnel in the country concerned.

Compliance – product responsibility

PR9 Significant fines for non-compliance with laws and regulations concerning products and services

No significant fines were levied against the company during 2011 for non-compliance related to products and services.

Stakeholder relations

Listening and learning

(includes GRI indicator PR5, and GRI standard disclosures 2.10, 4.14–4.17)

Stakeholder engagement on sustainability-related issues is becoming increasingly important to ABB from a strategic and business perspective.

One of the work streams stemming from Sustainability Strategy 2015+ foresees the introduction of an improved stakeholder engagement process throughout the Group by the end of 2013. Work is already under way to standardize how dialogues on sustainability issues are held and how stakeholders' views are captured, evaluated – and acted on – at a national and Group level.

Our new strategy was based on the widest-ever sustainability stakeholder survey with nearly 600 individuals inside and outside the company providing their views in 2010 and 2011 on ABB's sustainability performance and potential improvements.

The survey included top ABB executives and business representatives from all regions, as well as customers, suppliers, investors, governments, academics and students and specialists involved in our key focus areas – the environment, climate change, human rights, health and safety, and security.

One of the main suggestions we received: ABB should take a higher profile on sustainability issues, based on the progress and improvements made internally over the past few years and given the positive contribution made by many of our products and systems over their life cycle. Stakeholders felt ABB's sustainability profile had been too modest.

The strategy and the issue of ABB's profile were assessed at the main Group-level stakeholder session in Zurich, Switzerland in 2011, which brought together experts on the business impact on the climate and environment, and labor and human rights.

Key issues raised at the meeting included the need for ABB to communicate more about the business opportunities for sustainability, and ensure this message is understood within the company. Some initial ideas, presented by ABB, were criticized for not being sufficiently appealing to an external audience.

ABB engaged with a wide variety of stakeholders around the world in 2011, seeking contact with organizations and individuals who may be affected by our business operations, and whose actions may, in turn, affect the company. Some of the meetings were formal roundtable discussions but many were face-to-face meetings with specialists.

The most frequent discussions involved customers and suppliers, as well as ABB employees. There were also meetings with government representatives, unions, NGOs, media representatives and academics at a national and corporate level.

Among the most common themes raised during the discussions: ways of improving customers' energy efficiency, and strengthening suppliers' understanding of our environmental, labor and health and safety requirements.

In the United States, for example, discussions with customers focused mainly on energy efficiency and climate issues, particularly concerns about greenhouse gas emissions. In the Finnish city of Vaasa, where ABB is a major employer, our management met officials from the city and surrounding municipalities – which is an annual event – to discuss use of land, infrastructure issues and the employment situation, as well as the company's performance.

In many countries ABB focused on working with suppliers to improve their performance. This can take the form of supplier audits, as in China, India and Mexico in 2011 or discussions with suppliers about health and safety requirements, as happened in Colombia.

Ideas arising from these sessions led to changes within the company, several of them focused on improved communications and processes.

- In Germany, for example, a survey of employee satisfaction led to guided dialogues on ways of improving leadership
- A formal roundtable meeting in South Africa with a range of stakeholders resulted in ABB carrying out an advertising and communications campaign to promote energy efficiency and water technology capabilities
- In Peru, a meeting with a union, centering on employee rights and benefits, led to improvements in the existing agreement strengthening – among other things – education benefits for employees' children
- Communications efforts were stepped up in Qatar to create better understanding of ABB's business and health and safety goals, following discussions with customers and suppliers
- In Italy, a network of corporate volunteers is being created to strengthen the company's social activities around the country, and a team was established to provide more opportunities for disabled employees

Among other stakeholders, there is also strong interaction with universities and academic institutions on issues ranging from collaborative research projects to teaching students in Sweden and Switzerland about the corporate responsibility to respect human rights. In Peru, five meetings were held with the main universities focusing on energy efficiency and ways of mitigating climate change. Students were encouraged to join a competition on how to lower carbon emissions using ABB products and solutions.

ABB also participates in and learns from involvement in a number of multi-stakeholder organizations. We are members of the World Business Council for Sustainable Development's electricity utilities working group, and participate in the energy and climate focus area, as well as the Access to Energy initiative in the run-up to the Rio+20 summit in 2012.

At the United Nations Global Compact, we are also taking part in an energy initiative and events linked to the UN's year of access to sustainable energy for all in 2012.

In recognition of our social and community engagement activities, ABB won 19 awards worldwide in 2011. One came from a customer: ABB was one of two suppliers to win Bombardier Transportation's first Sustainable Suppliers Award.

The list included an award in Sweden for human rights performance, recognition of good health and safety practices in Brazil, Singapore and the United States, a best working environment accolade in Saudi Arabia, an overall corporate social responsibility award in the United Arab Emirates, and recognition for strong environmental performance in China.

ABB in Germany won a business magazine award for its "Generation program" which seeks to ensure that young and older employees work together well, that knowledge transfer is organized, and that employees of all ages benefit from job opportunities and better working conditions. In several countries, including Sweden and Switzerland, ABB was designated an employer of choice in 2011.

Customer relations

ABB introduced a metric called the "net promoter score" program in 2011 as part of our efforts to better measure and monitor customer satisfaction, perceptions and expectations. The metric is straightforward for the customer and easy for our managers to interpret, track and act upon.

The net promoter scorecard is part of ABB's overall commitment to building a culture of quality and continuous improvement that drives growth through customer loyalty.

ABB also compiles, validates, tracks and analyzes all customer complaints in a single, global system that helps resolve problems quickly and efficiently. This system – the Customer Complaints Resolution Process – also provides valuable pointers for improvement.

Other GRI indicator

4.13 Memberships in associations

Listed below are some of the principal associations and initiatives with which ABB is involved in the area of sustainability:

- Chalmers University of Technology, Sweden
- Global Business Initiative on Human Rights
- Global Reporting Initiative
- Hunger Project, Switzerland
- Institute for Human Rights and Business
- International Committee of the Red Cross
- International Institute for Management Development, IMD
- Swedish Standards Institute
- oikos International, Switzerland
- Pew Center on Global Climate Change, US
- Transparency International
- United Nations Global Compact
- World Business Council for Sustainable Development
- World Childhood Foundation, Sweden
- World Economic Forum
- WWF

Risk management

The benefits of good planning

(includes GRI standard disclosure 4.11)

Good risk management is essential to business success. In this context, considerable efforts have been made in recent years to strengthen proactive identification and management of sustainability risks – such as environmental, health and safety, social, human rights, and security issues – and those efforts yielded very positive results in 2011.

The benefits to the business were apparent in many areas. Security and crisis management exercises are carried out in all regions - and sometimes they are fortuitously well timed. In Japan, for example, the exercise for managers looked at the consequences of a major earthquake shortly before the Fukushima tragedy. Our crisis team in Japan worked with the Group crisis task force and was well primed to ensure the safety of our employees and business continuity.

In Egypt, a crisis exercise was held shortly before the revolution. In a major operation, involving local, regional and corporate managers and security officials, expatriate staff and their families were repatriated safely, assets were secured and business was only briefly disrupted.

By the end of 2011, about 850 managers in all eight ABB regions, as well as almost all country management teams, had been trained on crisis management.

Health and safety training is also another significant area of risk management. ABB employees and contractors can be exposed to risk if they do not follow the rules and instructions that have been established. Ongoing health and safety training in 2011 in high-risk areas, such as working with electricity and road travel, led to greater awareness of potential dangers and a significant fall in the number of incidents.

Overall, ABB has a global integrated and Group-wide risk management process. Once a year, the executive management and the Board of Directors perform a risk assessment in accordance with the company's risk management processes and take appropriate actions where necessary.

We take a comprehensive top-down and bottom-up approach to Enterprise Risk Management (ERM). The process directly involves group functions, regions, country management, divisions and large global business units, and is supported by a common ABB risk catalogue and training for the participating entities. The number of participating entities increased in 2011.

The common risk catalogue specifically includes consideration of external, strategic and operational risks, including the legislative environment and topics related to climate change. Participating entities are expected to organize ERM roundtables where top risks are identified, assessed and reported along with a detailed risk description, the likelihood of such risks occurring, the potential impact on profitability, and mitigation plans. The risk management approaches of Group ERM and Internal Audit are aligned.

The raw and residual risks are consolidated and analyzed at a Group level by the Group ERM team and discussed at the Group ERM roundtable which involves management from different parts of the Group.

We know that effective risk management on sustainability issues supports business goals and continuity; failure to understand and manage such risk at an early stage can lead to additional cost and damage to reputation. To that end, in recent years we have integrated Group-wide sustainability criteria into our risk assessment process for projects, our supplier selection guidelines and processes, and into the due diligence performed on potential acquisitions.

Sustainability experts are now embedded in the supply chain teams and mergers and acquisitions processes. And as part of the objective to identify and, where appropriate, mitigate potential risks as early as possible in the decision-making process, members of the sustainability management team now work with two key divisions to look at projects at the pursuit stage rather than shortly before a tender is made.

Sustainability due diligence is regular and can take many forms: In 2011, environmental specialists were involved in acquisitions as well as project assessments; security experts were involved in assessing the risks at individual project sites and countries around the world, as well as planning for different contingencies in many countries, including North Africa and the Middle East. Human rights specialists in the company reviewed a number of potential projects before making recommendations to the business.

In a year which was unpredictable in many different areas, good risk management proved its worth in all parts of the business. The need to focus on predicting, managing and mitigating risk – in all its forms – will continue.