UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Investment and Enterprise Responsibility Review

Analysis of investor and enterprise policies on corporate social responsibility

UNITED NATIONS

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Investment and Enterprise Responsibility Review

Analysis of investor and enterprise
policies on corporate social responsibility

UNITED NATIONS
New York and Geneva, 2011

Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

UNCTAD/DIAE/ED/2010/1

UNITED NATIONS PUBLICATION

Key messages

Transnational corporations (TNCs) play an ever more important role in sustainable development as conduits of capital, technology, and management know-how. Increasingly, TNCs are being called upon to address broader environmental, social and governance (ESG) issues. At the same time, large globally active investment institutions are becoming increasingly aware of the potential impact of a range of non-financial issues (e.g. climate change, human rights, corporate governance practices) on an investment proposition.

This review of the current state of practices in the area of corporate social responsibility (CSR) among the world's 100 largest TNCs and responsible investment (RI) among the 100 largest institutional investors reveals a number of important insights:

(a) Private policy at a large enough scale can have an impact similar to, or greater than, public policy. As a result, CSR has emerged as an important area of soft law self-regulation (or "soft-regulation"). CSR can present policy makers with new options and tools for addressing key development challenges.

(b) Most large TNCs now recognize the importance of CSR, yet the standard of communication varies widely. There is a role for policymakers to enhance the quality of communications. Various policy options exist, such as supporting the harmonization of CSR reporting, and mandating such standardized reporting through stock exchange listing requirements.

(c) Responsible investment practices (efforts by investors to incorporate ESG issues into investment decisions and to engage with investee companies to encourage ESG practices) have become common features of the world's 100 largest pension funds. Regulators can work to strengthen the mechanisms through which institutional shareholders are able to influence the ESG practices of the companies in which they invest, while also encouraging investors to formally articulate their stance on ESG issues in public reports.

(d) At least basic climate change related information is now reported by most large TNCs. However, significant inconsistencies and inadequacies among company reports undermine the comparability and usefulness of this information. Unless reporting is produced in a consistent and comparable manner, it is difficult for policy makers, investors and other stakeholders to use it to make informed decisions. Policymakers could promote an internationally harmonized approach to the way companies explain, calculate and define climate change related emissions.

(e) A number of voluntary initiatives are taking a leading role in designing and facilitating CSR and responsible investment instruments, encouraging improved corporate communication on ESG issues and creating important benchmarks, based on universally agreed principles. Policymakers can become involved in these initiatives with the aims of promoting sustainable development goals and identifying useful tools to complement government rules.

Preface

This *Investment and Enterprise Responsibility Review* reveals that most of the largest TNCs in the world have adopted CSR policies of one kind or another, and a significant portion of the world's largest institutional investors are adopting new "responsible investment" policies to encourage CSR among their investee companies. These policies vary in the scope of issues covered, the depth of their application and their delivery of actual outcomes, thereby making comparisons between organizations difficult.

Climate change is also addressed in the *Review's* analysis of TNC disclosures. While most of the largest TNCs are taking steps to report on climate change, much work remains to make this disclosure more comprehensive and comparable. Efforts to promote "low-carbon" economies require robust measurements to determine in the first instance exactly what is meant by "low".

Over the years, CSR has emerged as an important area of soft law self-regulation due to the influence of TNC policies. The central driving force is the understanding that private policy at a large enough scale can have an impact similar to, or sometimes even greater than, public policy. As TNCs have scaled up their operations, the individual and collective impact of their private policies on the environment, society and the development goals of countries has become significant.

Taken as a whole, the *Review's* snapshot of TNC and investor activity not only gives us a general picture of what is happening now, but it also leaves us with an understanding of the ongoing demand placed on enterprises to meet a range of social and environmental expectations. The data and analysis in this review aim to inform further discussion on the ways companies and investors manage, measure and report their social, environmental and governance (ESG) performance, and to encourage business leaders and public policy makers to further advance responsible business practices.

In the wake of the BP oil disaster in the Gulf of Mexico, questions have been raised about the meaningfulness of voluntary corporate responsibility communications and the analysis of these by responsible investors. This report makes clear that both CSR communications and ESG analyses must now improve, to better indicate the contributions and impacts of business, rather than simply offer an engagement with the issues.

This next stage will require more dialogue between the private sector, civil society and the public sector, and importantly, more leadership from governments to ensure CSR reports and analyses provide meaningful and usable information on the impact of business on sustainable development.

Supachai Panitchpakdi

Geneva, August 2010

Secretary-General, UNCTAD

Acknowledgements

The *Investment and Enterprise Responsibility Review* was prepared by Anthony Miller, Economic Affairs Officer, Accounting and Corporate Governance Section, under the overall supervision of Tatiana Krylova, Head, Enterprise Development Branch, Division on Investment and Enterprise, and Jean Francois Baylocq, Chief, Accounting and Corporate Governance Section.

Valuable editorial guidance was provided by Jem Bendell, Associate Professor with the Asia Pacific Centre for Sustainable Enterprise, Griffith Business School, Australia.

Research support for this project was provided by: Stephen Hine, Dani Law, and Stephanie Maier of EIRIS, United Kingdom; Henriëtte Boerma, Joke Richter and Nancy-Kamp Roelands of Ernst & Young, Netherlands; and Robert Bianchi, Michael Drew and Adam Walk of Griffith Business School, Australia. EIRIS research provided the basis for Chapter I; the research of Griffith Business School provided the basis for Chapter II; and the research of Ernst & Young provided the basis for Chapter III. Jem Bendell's analysis provided the basis for the Overview.

UNCTAD gratefully acknowledges the support of the following research assistants: Jelina Mitrovic played a key role in coordinating inputs to the document, organizing its layout and assisting with its overall production. Leonie Goodwin provided substantive comments, editorial support and crucial assistance in finalizing the document. Mengqi Cai provided additional support in preparing the document.

Comments were received during various stages of preparation from: Yoseph Asmelash, Economic Affairs Officer, Accounting and Corporate Governance Section, UNCTAD; James Gifford, Executive Director, Principals for Responsible Investment; Rob van Tulder, Erasmus University, Netherlands; and Steve Waygood, Aviva Investors, United Kingdom.

Contents

Tables

Figures

Boxes

Abbreviations

AUM	assets under management
CAGR	compound annual growth rate
CDM	Clean Development Mechanism
CDP	Carbon Disclosure Project
CERES	Coalition for Environmental Responsible Economies
CH_4	Methane
CO_2	carbon dioxide
CPP	Canadian Pension Plan
CSR	corporate social responsibility
DC	Defined Contribution (United Kingdom)
EAI	Enhanced Analytics Initiative
EIRIS	Ethical Investment Research Services
EMS	environmental management systems
ESG	environmental, social and governance
FTSE	Financial Times and the London Stock Exchange
GDP	gross domestic product
GHG	greenhouse gas
GRI	Global Reporting Initiative
H&S	health and safety
HFCs	hydrofluorocarbons
ICGN	International Corporate Governance Network
ILO	International Labour Organization
INCR	Investor Network on Climate Risk
IPCC	Intergovernmental Panel on Climate Change
IRA	individual retirement account (United States)
ISAE	International Standard on Assurance Engagements
ISAR	Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
ISO	International Organization for Standardization
ISS	Institutional Shareholder Services (subsidiary of RiskMetrics corporation)
JI	Joint Implementation
N_2O	nitrous oxide
NGO	non-governmental organization
OECD	Organization for Economic Cooperation and Development
OHSAS	Occupation Health and Safety Assessment Series
PFCs	perfluorocarbons
PRI	Principles for Responsible Investment
RI	responsible investment
S&P	Standard & Poor’s
SEC	Securities and Exchange Commission (United States)
SF_6	sulphur hexafluoride
TNC	transnational corporation
UNFCCC	United Nations Framework Convention on Climate Change
WIR	World Investment Report (UNCTAD)

Overview

This *Review* provides an analysis of the voluntary practices of TNCs and large institutional investors as these institutions respond to issues of corporate social responsibility. These two groups represent large investments either through investment by pension funds in enterprises or through direct investment by TNCs into countries themselves.

Many terms and definitions exist to describe aspects of enterprise and investor responsibility. Different terms place emphasis on different aspects of investor and enterprise activities, such as risk, innovation, environment, society, voluntary action, regulatory initiative, financial returns, moral principle, management process and practical impact. The terms “corporate social responsibility”, “corporate citizenship” and “sustainable business”, have become popular for describing the integration of social, environmental and economic considerations into the decision-making structures and processes of business. A contemporary view of corporate responsibility management has emerged as not only involving diligent compliance with national law but also aspiring to meet international standards and the expectations of society. This reflects how some managers recognize the importance of engaging stakeholders to better manage potential corporate risks, build trust within society, stimulate innovation, and enable new business models or reach new markets. Some consider that being responsible involves innovating products and business processes to provide solutions to social and environmental challenges.[1] The key terms used in this report are corporate responsibility (CR), corporate social responsibility (CSR), environmental, social and governance issues (ESG), and responsible investment (RI).

Corporate responsibility (CR) is the field of society’s expectations of corporations [2] As the 1999 *World Investment Report* (*WIR*99) noted, those expectations concern how “business enterprises relate to, and impact upon, a society’s needs and goals”.[3] *WIR99* went on to observe that “in principle, a company is broadly responsible for the consequences of its operations, including direct impacts as well as unintended side-effects or other externalities that affect third parties.” (p. 348).

The term corporate social responsibility (CSR) is used throughout this *Review* to describe the active management of policies and programmes that address corporate responsibilities. CSR has in the past been regarded as a separate function within a company that did not necessarily address core business processes. Although there is an important role for CSR departments and also for philanthropy, CSR has come to be viewed as a firm wide activity involving the active management of core business processes as part of the social responsibility of a firm.

The range of issues addressed by CSR management generally fall within the categories of environmental, social and governance issues. Frequently referred to as ESG issues, these three categories form the general framework of analysis on enterprise actions used in this review.

Responsible investment (RI) refers to the efforts of investors to incorporate ESG issues into investment decisions and to actively engage with investee companies to encourage improved ESG practices. In recent years, international consensus on RI’s basic principles has emerged in the form of the United Nations-backed Principles for Responsible Investment (PRI). Launched by the United Nations Secretary General in 2006, the PRI is a framework to assist fiduciaries and institutional investors to incorporate ESG issues into investment decision making and ownership practices. The principles of the PRI are voluntary and aspirational in nature, but are supported by clear disclosure requirements designed to encourage signatories to fulfil their commitments under the principles.

General findings in enterprise and investor practices

Corporate communications on ESG issues and company CSR programmes have risen in number from a handful ten years ago to become mainstream amongst the world's largest TNCs today. As shown in chapter I, most of the world's 100 largest TNCs provide at least basic level CSR annual reporting. This volume of reporting comes just 14 years after the first corporate annual report on social responsibility by The Body Shop International Plc. in 1996. Furthermore, chapter II, an analysis of institutional investor practice, finds that more than half of the world's 100 largest institutional investors now require responsibility or sustainability policies and reporting from the companies they invest in and nearly half (46) report that they incorporate ESG issues in their investment process.

Both TNCs and institutional investors approach reporting in differing ways, with some communications on ESG issues and CSR efforts extremely limited in scope, depth, precision and credibility. For instance in the case of climate change related disclosure (reviewed in chapter III), 87 of the top 100 TNCs report some information, but not all companies report the same kind of information or to the same extent, making direct comparisons difficult or impossible. Similarly, as highlighted in chapter II, only 13 of the top 100 institutional investors have an explicit annual report on RI practices. This variation in scope, depth, precision and credibility of enterprise and investor communications on their responsibilities, means that systematic analysis by governments and intergovernmental agencies is difficult. This is of importance to policymaking, as claims about the social, environmental and governance challenges, efforts and impacts of enterprises and investors are diverse, and the formulation of effective incentives, taxes, investments and prohibitions by governments require accurate information. This lack of an accurate picture of the landscape of CSR and RI is particularly acute in areas such as climate change, that are of rapidly increasing importance in terms of commerce, trade and international legal obligations.

The variable nature of CSR communications is also of significance to those investors that consider some ESG issues to be material to financial risk and performance, or consider all ESG issues to be of general relevance to the long-term viability of their overall portfolio, or who have non-financial interests due to the attitudes of their beneficiaries. Chapter II highlights the large number of institutional investors, controlling significant global assets, who consider ESG issues to be material and have implemented investment policies that reflect this.

If institutional investors provided more comprehensive reporting on their RI and the ESG practices of their investees, this could encourage improvements in TNC practices. Therefore, encouraging comprehensive, precise and credible reporting on RI from institutional investors around the world could be a focus for intergovernmental cooperation. However, as the interests of institutional investors in ESG issues may not always align with the interests of individual governments and communities, there is an important role for governments to guide CSR communications in areas that go beyond the interests of investors so that enhanced assessments are achieved.

Given that most large TNCs now recognize the importance of CSR, yet the standard of corporate communications on ESG issues varies widely, there is a role for government and intergovernmental process to enhance the quality of communications and thus transparency of corporate management of ESG issues. Various policy options exist, from funding the development of relevant industry standards, to mandating corporate reporting on ESG issues, to providing detailed guidance on the necessary scope of and verification of such reports. International comparative studies on how different policy mechanisms shape the comprehensiveness of CSR reporting in national contexts would be useful for informing such policy innovation in future.

A number of voluntary initiatives exist that encourage corporate communications on CSR and RI. These initiatives, however, can deliver different levels of disclosure from companies, and therefore governments can benefit from developing their understanding of the characteristics of these dynamic voluntary initiatives. Improved knowledge of such initiatives can allow governments and intergovernmental organizations to shape their development and implementation and also to know when, where and how to complement them with government rules.

Internationally, the quality of CSR reporting is influenced by the voluntary initiatives of organizations such as: UNCTAD’s Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), the International Organization for Standardization (ISO), the Global Reporting Initiative (GRI) and AccountAbility, among others. ISO’s 14000 series of standards influences the quality of environmental reporting through its specification of management systems (discussed in chapter III). However, it leaves key decisions about what to focus on and disclose with the company. The GRI (discussed in chapter I) provides a framework for reporting on ESG issues, and to an extent on RI. It does not specify what substantive areas must be included in a CSR communication, but provides advice on what could be included, some limited guidance on how to identify issues and increasingly, advice on how to measure performance on such issues. Standards to provide some assurance and rigour around the process of stakeholder engagement, choosing and prioritizing issues to work on and publicly report on are produced by organizations such as AccountAbility (AA1000, AA1000AS, AA1000SES)[4] and the International Accounting and Auditing Standards Board (ISAE3000).[5] With the approval of ISO’s organizational responsibility draft guidance document ISO26000 in 2010, there is an additional resource to guide business communications. These different initiatives and standards will help some companies and investors to communicate more comprehensively and credibly on CSR and RI. However, they will not prevent the international landscape of communications on enterprise and investor responsibility from remaining a jagged terrain, with some outstanding examples, yet many areas remaining in the dark. Therefore governments could consider new efforts to analyse how these different initiatives relate, and how they can better play a role in generating more comprehensive and comparable disclosure.

Measuring the low carbon economy

Chapter III reviews climate change related disclosure by TNCs. While the 2009 meeting of the United Nations Framework Convention on Climate Change (UNFCCC) in Copenhagen confirmed the high level of public and government concern with human-induced climate change, it also highlighted clear divisions on how to create a global regulatory framework for carbon reductions. Despite a lack of clarity on a price for carbon either in one market or across different markets through carbon cap and trading systems, the commercial implications of climate change and the increasing cost of greenhouse gas (GHG) pollution is of interest to investors. One reason is that, already, emitting GHGs presents a cost to business in many jurisdictions, through the existence of carbon taxes. Denmark, Finland, Netherlands, Norway and Sweden established carbon taxes in the early 1990s. In the last two years, interest in carbon taxes grew: in 2008, the United States State of California introduced a carbon tax; and in 2009, France detailed a new carbon tax set at €17 ($25) per ton of carbon dioxide (CO_2),[6] as did the Republic of Ireland, set at €15 per ton.[7] A number of other countries are currently examining options for introducing their own carbon taxes. For TNCs that operate in markets around the world, the existence of carbon taxes is of commercial importance even if their own country of origin does not yet impose one.

In addition to the investor interest, national regulators need to know the levels of GHGs being emitted by various business sectors in order to calibrate their policies and work towards their international commitments on reducing GHG emissions or the GHG intensity of economic growth. Therefore, disclosure by companies and investors of their climate change policies and GHG abatement programmes is important, as are quantitative measures of the GHGs produced by companies either directly or indirectly.

The research presented in chapter III finds that it is now common for TNCs to report at least basic information on their policies and activities regarding GHG emissions. That reporting is, however, inconsistent in its scope, depth, precision and credibility. While 87 of the top 100 TNCs report some information on GHGs emissions, only 12 TNCs provide detailed information on all of the scopes recommended by the World Resources Institute and the World Business Council for Sustainable Development. TNCs are examined in this study as the likely leaders in business practices and as a sample of the largest enterprises in the world. Given that such leading enterprises are not reporting in a sufficiently comprehensive manner, it is probable that the state of GHG emission reporting in general is poor. Unless reporting on climate change initiatives and GHG emissions are produced in a consistent and comparable manner, then there is not the data for either investors or regulators to make clear informed decisions on the carbon intensity of particular businesses or sectors. Given not only the paramount ecological importance of this area but also the growing commercial and regulatory implications, this inconsistency in corporate reporting is not tenable. Therefore, policymakers should consider working together to agree on a global standard for climate change–related disclosures and require all companies, particularly TNCs, to apply this in their communications. Existing bodies such as UNCTAD’s Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting could be instrumental in this regard.

Challenges with the measurement of process not impacts

This research analyses the communications of companies and investors on ESG issues. It does so because corporate disclosure on their CSR or RI is a starting point to meaningful engagement on their social and environmental performance. This report describes more active management or less active management of ESG issues by the assessed enterprises and investors, rather than making claims about actual impacts. This reflects current practices in which much CSR/RI reporting and analysis tends to focus more on how issues are managed rather than measuring actual business impacts on communities and the environment.

There are five limitations of current forms of reporting and analysis in describing the actual social and environmental impact of companies. First, often the most pressured companies have adopted policies and programmes and reported their CSR earlier than others. For instance, Company A may report that it has an environmental policy, whereas Company B does not – where Company A is a gold mining company facing a range of challenges, concerning biodiversity destruction, pollution and influencing the spread of infectious disease, whereas Company B is a solar power company, facing fewer issues and providing a particular social value. This can often result in companies with the most significant impacts rating among the best CSR performers.

Second, most reporting is created by the company, and even if verified, it is a corporate view, and systems for the certification of auditors of CSR communications have some room for improvement.

Third, CSR reporting and analysis tends to currently focus more on process issues, rather than actual performance and impact, and while there has been some attempt to generate protocols for performance reporting, they are not widely used and need further development.

Fourth, current reports and analysis don’t tend to distinguish between the materiality of an issue to an organization versus the materiality of an issue to society. These are not always the same. For example, negative externalities that generate no immediate costs for a company may not be material to a company; however, these externalities may be directly material to affected stakeholders. Furthermore, many ESG analysts make independent estimations on materiality i.e. analysts decide whether an issue is material to an organization or community and how material it is.

Lastly, most current reporting and analysis tend to adopt a downside risk management framework – i.e. they do not examine the potential positive contributions of an enterprise to addressing particular social or environmental problems. For example, some countries are considered to present higher risks of social or environmental problems and therefore companies sourcing or operating in them are expected to have enhanced CSR policies; otherwise, they are marked down. While this categorization of countries could be contested in and of itself (as there are cultural issues shaping an analyst’s perception of the location of social and environmental risks), the principal limitation is that, within an opportunities framework, countries, issues and industries could be assessed in terms of the potential for benefit to be created – such as needed employment or technology transfer. As with materiality, many ESG analysts currently make independent estimations on risk and because the process behind these estimations lacks complete transparency, it is difficult to enable debate and learning about how to improve the credibility of such assessments going forward.

Addressing these five limitations would strengthen the role of ESG analysis in guiding investment decisions and informing government policies. One of the underlying challenges for analysts is that it is difficult to determine from corporate responsibility reports an enterprise’s social and environmental impact. Corporate responsibility communications provide an indication of the awareness of a company on some ESG issues, their efforts on those issues, and their intention to share information and begin to be assessed on such issues. In other words, their communications demonstrate engagement with their wider responsibilities, while not always providing concrete comparable data on social or environmental performance.

In time, CSR and RI reports, as well as ESG analyses, could benefit from a stronger focus on actual performance, and addressing the five limitations outlined above would assist with this. Given how widespread ESG communications have now become, governments could consider what role they can play, how effective ESG communication is in promoting fair and sustainable markets and how it can be improved.

Conclusion

Since UNCTAD’s *WIR99* examined the issue of CSR, many things have changed. The *WIR99* observed, for instance, that “one difficulty with implementation measures is the large variation among standards in their degree of specificity and applicability to particular industries and business operations” (p. 367). A broad range of CSR standards persist to this day. But in the decade since that observation, the world has also seen the rise of significant unifying principles. The United Nations has played an important role in this area, with the launch in 2000 of its Global Compact, a voluntary initiative for businesses and civil society, and in 2005 with the launch of the Principles for Responsible Investment, a voluntary initiative for institutional investors. These instruments create important benchmarks, based on universally agreed principles that can assist in providing a framework for analysis.

A number of challenges remain, however. Key among these is the goal of improving analytical tools used to gauge progress on key issues. The *WIR99* observed that “crucial monitoring questions regarding “what’, “who” and “how” remain unresolved in most cases” (p. 367). This remains largely true today. The present report has sought to make a concrete step towards answering these questions and providing more analytical rigour to questions of voluntary policies on CSR. The analysis contained in this report provides some useful information on enterprise and investor policies in this area. The report also acknowledges that further work must be done to strengthen the accuracy, clarity and usefulness of such research. In part this means working with enterprises, investors and other stakeholders to improve reporting practices and analysis.

The current report aims to provide a better understanding of which practices are having the maximum effect of promoting sustainable development. Ultimately, the goal is to identify best practices and to encourage their application by all enterprises and investors. While illustrative examples of good performance are important, there is also a need to better understand the connections between public policies and the voluntary private policies of enterprises and investors. This exercise can assist public policymakers in better understanding the relationship between regulatory and voluntary approaches and in better applying the right mix of incentives.

Analysing enterprise and investor policies is strongly connected to broader issues of corporate disclosure. Non-financial reporting will need to continue to transition from merely mentioning ESG issues, to measuring actual impacts. This is a complex task, but this shift from mentioning issues to measuring impact is necessary for investors and regulators to shift from commentary on, to comparability of, corporate performance. The growth of CSR and RI communications has reached a stage where public policy could now play a useful role, to ensure the public purpose is served. Given the international nature of these issues, and the market players involved, exploration of what governments can do could benefit from further intergovernmental dialogue and action.

Endnotes

[1] Bendell J (2009). *The Corporate Responsibility Movement*. Sheffield, United Kingdom: Greenleaf Publishing: 2.

[2] Ibid.: 22.

[3] UNCTAD (1999). *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development*. United Nations publication. Sales No. E.99.II.D.3. New York and Geneva: 345.

[4] AccountAbility, *AA1000 Series of Standards*, available at http://www.accountability.org.

[5] International Auditing and Assurance Standards Board, *International Standard on Assurance Engagements 3000 (ISAE 3000)*, available at http://www.ifac.org/members/DownLoads/ISAE_3000.pdf.

[6] Puljak N (2009). Sarkozy unveils new French carbon tax. *Sydney Morning Herald*. 10 September. Available at http://news.smh.com.au/breaking-news-world/sarkozy-unveils-new-french-carbon-tax-20090910-fjhw.html.

[7] Inside Ireland (2009), *Carbon tax of €15 a tonne announced*, December 09 2009, available at http://www.insideireland.ie.

CHAPTER I: THE LARGEST TRANSNATIONAL CORPORATIONS AND CORPORATE SOCIAL RESPONSIBILITY

A. Introduction

Transnational corporations play an ever more important role in sustainable development. For many years, UNCTAD has highlighted the important development role that TNCs can play as conduits of capital, technology and management know-how. Increasingly, TNCs are being called upon to address broader environmental, social and governance issues. From climate change, to human rights, to labour practices, to international bribery – there is a broad range of issues with which TNCs are confronted. For more than a decade, TNCs have been reacting to these issues with new policies and practices to address their social and environmental responsibilities. Past studies have examined this trend. UNCTAD provided an initial look at this subject in the *WIR99* and continued to address this issue in a number of publications, including subsequent issues of the *WIR*, as well as in its series on international investment agreements and its work on international accounting and reporting issues.

The purpose of this chapter is to provide an analysis of the voluntary enterprise policies on corporate social responsibility (CSR) that have been adopted by the world's largest TNCs. There are a number of challenges in this type of analysis, the principle one being the attempt to compare and quantify qualitative aspects of enterprise policies. Not all polices are equal in scope or detail. As detailed in the methodology section below, this chapter makes use of best practice analytical tools currently employed by the investment community. These tools provide a snapshot of what enterprise policies exist and how these policies compare to one another.

B. Methodology

1. Sample studied and source of data

The study sample is comprised of the 100 largest non-financial TNCs identified in UNCTAD's *WIR08*.[8] These 100 companies are evaluated on a range of criteria covering the three categories of environmental, social and governance (ESG) issues which comprise the core subjects of CSR. The companies are then ranked on the basis of their ESG practices, based on measurements of their ESG policies and practices undertaken by the research firm Ethical Investment Research Services (EIRIS).[9] The EIRIS measurement methodology is used to rank enterprises for inclusion in popular equity indices. While quantification of qualitative aspects of corporate policy and practice has inherent challenges and limitations, and the credibility and comparability of corporate reporting in these areas is still evolving, the EIRIS methodology is considered by stock exchanges, investors and fund managers to be an example of current best practice in this area.

This ranking methodology assesses enterprise policies and practices primarily by examining publicly available information found in:

- Company annual reports;
- Sustainability or corporate social responsibility (CSR) reports;
- Other public company documents; and
- Information on company websites.

All figures are based on information extracted from the EIRIS database as of June 2009. All 100 companies were sent a copy of their performance profile and allowed the opportunity to provide feedback. A response rate of 48 per cent was observed.

It is important to note that the assessments of the TNCs contained in this chapter do not include an evaluation of the impacts of the individual companies or their performance against their policies and targets or analyse related company trends. Rather, the term "performance" in this context refers to how well TNCs have integrated CSR within their enterprise policies, management systems and corporate reporting. In short, this is an analysis of enterprise policies and management performance, not actual enterprise impacts.

2. Calculation of company grades and scores

EIRIS calculates a grade for each company by examining that company's practices within the three broad categories of environmental, social and governance issues, further sub-divided into eight sub-topics, as depicted in table I.1 below.

Table I.1. Criteria

Environmental issues	Environmental - general Climate change Biodiversity
Social issues	Human rights Supply chain labour practices Health and safety
Governance issues	Board practice Anti-bribery

Source: UNCTAD, based on data from EIRIS.

After reviewing the practices of each company against each of the criteria, the companies are given a grade for the way in which they appear to integrate relevant policies, management systems and corporate reporting within each category and subcategory. The EIRIS grading system is based on a five-point scale as depicted in Table I.2 below, which ranges from *"Advanced"* on the high end to *"No evidence"* on the low end. Each of these grades is assigned a numerical score from 1 to 5 (i.e. 5 for Advanced and 1 for No evidence).[10]

Table I.2. Grading and scoring system

	Grade	Score	Explanation
Highest	Advanced	5	This category is intended to identify leading companies that have shown an advanced level of managing and reporting on the issue.
	Good	4	The company is managing and reporting well on the issue compared to current best practice.
	Intermediate	3	The company is at an intermediate level of managing and reporting on the issue compared to current best practice.
	Limited	2	There is a basic level of evidence that the company is aware of this issue and has taken preliminary steps to address it.
Lowest	No evidence	1	No evidence of the selected indicators.

Source: UNCTAD, based on data from EIRIS.

A company's total score for each category is based on the cumulative scores for each subcategory; for example, a company's total social score is based on its cumulative score across the sub-categories of human rights, supply chain labour practices and health and safety.

A company's overall score is then calculated in the following way. The total numerical score is calculated; this is the cumulative score of its practices in each of the relevant ESG areas which are material to the company's operations (see note below on risk, relevance and materiality). Then the maximum possible score for that company is calculated (this is the score that would be obtained if the company were to receive the highest score possible (i.e. 5)[11] for each of the relevant criteria examined). The final overall score is then reached by calculating the ratio between the company's total numerical score and the maximum possible score the company could have received. This is presented in the formula below:

$$\textit{Final overall score} = \frac{\textit{Total numerical score}}{\textit{Maximum possible score}}$$

3. Presentation of findings

The final overall score is a percentage that indicates how well a company appears to integrate ESG practices, compared to the company's own possible maximum. To arrive at the main findings of the study, the 100 companies were ranked from highest overall score to lowest (see annex I.1 for a graph showing the final overall scores for the 100 companies).

Based on these overall scores, the companies were then categorized into five groups. These groups were obtained in the following way: the company with the best practices had a final overall score of 91 per cent, while the company with the poorest practices had a final overall score of just 1 per cent. Thus, the relative range of best to worst is 91 per cent (best) to 1 per cent (worst). This range was equally divided into five parts, with each group containing a range of approximately 18 percentage points.[12] This is depicted in table I.3 below.

Table I.3. Presentation of scores by group

Group	Final overall score
1	91 – 73
2	73 – 55
3	55 – 37
4	37 – 19
5	19 – 1

Source: UNCTAD, based on data from EIRIS.

These five groups were used throughout the analysis that follows to illustrate the relative strength of enterprise CSR policies and practices. Group rankings were provided not only for a company's overall score, but also for its individual scores on each of the three ESG issues.

4. Risk, relevance and materiality

It is important to note that companies have a different level of impact and face a different level of risk for each ESG criterion, depending on the industry and location of operations. High-risk exposure (or high impact) for a particular criteria or subject category signifies greater relevance or materiality[13] than low-risk exposure (or low impact). In this study, risk exposure has been determined by examining the nature or location of companies' operations in the areas of environmental issues, climate change, biodiversity, human rights, supply chain labour practices and bribery. For example, the level of risk exposure to labour malpractices within the supply chain will depend on a company's sector, the state of the regulatory infrastructure where its products are produced and the size of its operations.

For certain industries or companies, some issues were considered to be "low risk", i.e. of low relevance or no materiality. In such cases, the company was not assessed against irrelevant criteria. To ensure that this did not affect the final overall score for each company, the overall score, as noted above, was based on the maximum possible score a company could achieve (i.e. the maximum score for all the relevant criteria that were considered for the company).

5. Some issues concerning environmental, social and governance statistics: what is behind the numbers?

The methodology described above is an example of a leading mainstream approach to ESG analysis used by investors in some of the largest equity markets. There are, however, legitimate questions to be asked about how ESG analysts are interpreting issues of risk, particularly as they relate to many emerging markets. Ultimately, the challenge of quantifying essentially qualitative issues of policy can allow for unintentional perception biases. Future work in this area, therefore, must take into account not only the need to measure the practices of enterprises, but also the challenge to continuously improve upon the measurement methodology itself, with the aim of establishing a robust and open approach to gauging the policies and impacts of TNCs (including positive contributions to development). The data below should therefore be interpreted and used with these caveats in mind.

C. The environmental, social and governance practices of the 100 largest TNCs

1. Ranking TNCs by environmental, social and governance practices

Table I.4 provides an overview of the 100 TNCs' overall ESG management performance as well as specific environmental, social and governance rankings by group.

Additional information in the shaded squares on the right side of table I.4 provides a gap analysis indicating whether or not each company has a policy and reports on the specific areas of environment, human rights, supply chain labour practices and anti-bribery. Also indicated is whether the company is a signatory to the United Nations Global Compact and whether it produces a CSR/Sustainability Report using GRI guidelines.[14] A dark shaded square indicates that the item has been disclosed (i.e. the company does have a policy or report for the given issue) while the unfilled squares indicate gaps (i.e. items not being disclosed). The squares filled with diagonal lines indicate that the issue is not applicable to that company's operations (i.e. not considered material or relevant).

Following table I.4, subsection C.2 provides a deeper analysis of the companies' voluntary policies and reporting, including information on United Nations Global Compact signatories and companies using the GRI guidelines for reporting. Subsection C.3 then provides an analysis of overall management performance. Sections D to F analyse the companies' management performance for each of the ESG issues: environment, social and governance and outline how criteria for each of these issues were determined.

Table I.4. Overview of enterprise policies on corporate social responsibility, world’s 100 largest TNCs

Please note: Companies are arranged in alphabetical order within the five groups and not by their individual scores.

Legend: 🟦 **Disclosed** ⬜ **Not Disclosed** ▨ **Not Applicable**

Company Overview			EVALUATIONS EIRIS rankings group (overall)				OBSERVATIONS Voluntary policies and reporting									
Company	**Sector**	**Country**	**Overall**	**Environment**	**Social**	**Governance**	**Environmental Policy**	**Environmental Report**	**Human Rights Policy**	**Human Rights Report**	**Supply Chain Labour Policy**	**Supply Chain Labour Report**	**Anti-bribery Policy**	**Anti-bribery Report**	**Global Compact Signatory**	**GRI index**
BHP Billiton Group	Mining & quarrying	Australia	1	1	1	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	⬜	🟦
British Petroleum Company	Petroleum expl./ref./distr.	United Kingdom	1	1	1	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Diageo	Beverages	United Kingdom	1	1	1	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Eni Group	Petroleum expl./ref./distr.	Italy	1	1	1	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Ford Motor Company	Motor vehicles	United States	1	2	1	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
GlaxoSmithKline	Pharmaceuticals	United Kingdom	1	1	2	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Philips Electronics	Electrical and electronic equipment	Netherlands	1	1	2	1	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦
Lafarge	Non-metallic mineral products	France	1	1	1	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
National Grid Transco	Energy	United Kingdom	1	1	1	1	🟦	🟦	▨	▨	▨	▨	🟦	🟦	🟦	⬜
Nokia	Telecommunications	Finland	1	1	2	1	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	⬜
Rio Tinto	Metal and metal products	United Kingdom	1	1	1	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Roche Group	Pharmaceuticals	Switzerland	1	2	2	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	⬜	🟦
Royal Dutch/Shell Group	Petroleum expl./ref./distr.	United Kingdom	1	1	1	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
SAB Miller	Consumer goods/brewers	United Kingdom	1	2	2	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
StatoilHydro	Petroleum expl./ref./distr.	Norway	1	1	1	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	⬜	🟦
Total	Petroleum expl./ref./distr.	France	1	1	1	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦

Company Overview			EVALUATIONS EIRIS rankings				OBSERVATIONS Voluntary policies and reporting									
Please note: Companies are arranged in alphabetical order within the five groups and not by their individual scores.			group (overall)				🟦 Disclosed			⬜ Not Disclosed			▨ Not Applicable			
Company	**Sector**	**Country**	**Overall**	**Environment**	**Social**	**Governance**	**Environmental Policy**	**Environmental Report**	**Human Rights Policy**	**Human Rights Report**	**Supply Chain Labour Policy**	**Supply Chain Labour Report**	**Anti-bribery Policy**	**Anti-bribery Report**	**Global Compact Signatory**	**GRI index**
Unilever	Diversified	United Kingdom	1	1	2	1	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	⬜
Anglo American	Mining & quarrying	United Kingdom	2	2	2	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
BASF	Chemicals	Germany	2	1	2	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Bayer	Pharmaceuticals/Chemicals	Germany	2	1	2	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
British American Tobacco	Tobacco	United Kingdom	2	2	3	1	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	⬜	🟦
Carrefour	Retail	France	2	2	2	2	🟦	🟦	🟦	🟦	🟦	🟦	🟦	⬜	🟦	🟦
Chevron Corporation	Petroleum expl./ref./distr.	United States	2	2	2	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	⬜	🟦
Compagnie De Saint Gobain	Non-metallic mineral products	France	2	2	2	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	⬜
CRH	Lumber & other building materials	Ireland	2	2	3	1	🟦	🟦	🟦	⬜	▨	▨	🟦	🟦	⬜	🟦
Daimler	Motor vehicles	Germany	2	2	2	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Dow Chemical Company	Chemicals	United States	2	2	2	4	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Fiat	Motor vehicles	Italy	2	2	3	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	⬜	🟦
General Electric	Electrical and electronic equipment	United States	2	2	2	2	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦
Hewlett-Packard	Electrical and electronic equipment	United States	2	1	2	2	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦
Holcim	Non-metallic mineral products	Switzerland	2	1	2	1	🟦	🟦	🟦	⬜	▨	▨	🟦	🟦	🟦	🟦
Johnson & Johnson	Pharmaceuticals	United States	2	2	3	2	🟦	🟦	🟦	⬜	▨	▨	🟦	🟦	⬜	🟦
Nestlé	Food & beverages	Switzerland	2	2	3	1	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	⬜
Novartis	Pharmaceuticals	Switzerland	2	1	1	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Pernod-Ricard	Beverages	France	2	2	3	2	🟦	🟦	🟦	⬜	▨	▨	🟦	⬜	🟦	⬜

Please note: Companies are arranged in alphabetical order within the five groups and not by their individual scores.

🟦 Disclosed ☐ Not Disclosed ▨ Not Applicable

Company Overview			EVALUATIONS EIRIS rankings group (overall)				OBSERVATIONS Voluntary policies and reporting									
Company	**Sector**	**Country**	**Overall**	**Environment**	**Social**	**Governance**	**Environmental Policy**	**Environmental Report**	**Human Rights Policy**	**Human Rights Report**	**Supply Chain Labour Policy**	**Supply Chain Labour Report**	**Anti-bribery Policy**	**Anti-bribery Report**	**Global Compact Signatory**	**GRI index**
Pinault-Printemps Redoute	Wholesale trade	France	2	2	2	2	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	☐
Renault	Motor vehicles	France	2	1	2	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	☐
Sanofi-Aventis	Pharmaceuticals	France	2	2	2	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Sony Corporation	Electrical & electronic equipment	Japan	2	1	3	1	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	☐	🟦
The Coca-Cola Company	Beverages	United States	2	2	2	3	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Veolia Environnement	Water supply	France	2	2	2	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Vivendi Universal	Diversified	France	2	2	3	1	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦
Vodafone Group	Telecommunications	United Kingdom	2	2	3	1	🟦	🟦	🟦	☐	🟦	🟦	🟦	🟦	🟦	🟦
Volvo	Motor vehicles	Sweden	2	2	2	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
WPP Group	Business services	United Kingdom	2	2	2	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	☐	☐
Xstrata	Mining & quarrying	United Kingdom	2	2	2	1	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	☐	☐
Alcoa	Metal and metal products	United States	3	2	3	3	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	☐	🟦
Altria Group	Tobacco	United States	3	2	4	3	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	☐	☐
Anheuser-Busch InBev	Consumer goods/brewers	Belgium	3	4	2	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	☐
Arcelor Mittal	Metal and metal products	Netherlands	3	3	3	2	🟦	🟦	🟦	☐	▨	▨	🟦	🟦	🟦	🟦
BAE Systems	Transport equipment	United Kingdom	3	3	4	1	🟦	🟦	☐	☐	▨	▨	🟦	🟦	☐	☐
Barrick Gold	Gold Mining	Canada	3	3	2	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
BMW	Motor vehicles	Germany	3	2	2	3	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Christian Dior	Textiles	France	3	3	3	3	🟦	🟦	🟦	☐	🟦	🟦	🟦	☐	☐	☐

Please note: Companies are arranged in alphabetical order within the five groups and not by their individual scores.

🟦 **Disclosed** ⬜ **Not Disclosed** ▨ **Not Applicable**

Company Overview			EVALUATIONS EIRIS rankings group (overall)				OBSERVATIONS Voluntary policies and reporting									
Company	**Sector**	**Country**	**Overall**	**Environment**	**Social**	**Governance**	**Environmental Policy**	**Environmental Report**	**Human Rights Policy**	**Human Rights Report**	**Supply Chain Labour Policy**	**Supply Chain Labour Report**	**Anti-bribery Policy**	**Anti-bribery Report**	**Global Compact Signatory**	**GRI index**
ConocoPhillips	Petroleum expl./ref./distr.	United States	3	3	3	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	⬜	⬜
Deutsche Post World Net	Transport & storage	Germany	3	2	2	3	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Deutsche Telekom	Telecommunications	Germany	3	2	3	2	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦
E.On	Electricity, gas & water	Germany	3	1	4	3	🟦	🟦	🟦	⬜	▨	▨	🟦	🟦	🟦	🟦
Electricite de France	Electricity, gas & water	France	3	2	2	4	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Endesa	Electric utilities	Spain	3	2	2	3	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Eads	Aircraft & parts	Netherlands	3	3	3	2	🟦	🟦	🟦	⬜	▨	▨	🟦	🟦	🟦	⬜
Exxon Mobil Corporation	Petroleum expl./ref./distr.	United States	3	2	2	3	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	⬜	🟦
France Telecom	Telecommunications	France	3	2	3	3	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦
GDF Suez	Electricity, gas & water	France	3	2	3	3	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
General Motors	Motor vehicles	United States	3	2	2	3	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	⬜	⬜
Hitachi	Electrical & electronic equipment	Japan	3	2	5	1	🟦	🟦	🟦	⬜	🟦	⬜	🟦	🟦	🟦	🟦
Hyundai Motor Company	Motor vehicles	Republic of Korea	3	2	3	3	🟦	🟦	🟦	⬜	▨	▨	🟦	⬜	🟦	🟦
IBM	Electrical & electronic equipment	United States	3	2	3	2	🟦	🟦	🟦	⬜	▨	▨	🟦	🟦	⬜	🟦
L'Air Liquide Groupe	Chemicals	France	3	3	3	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	⬜	⬜
Liberty Global	Telecommunications	United States	3	5	1	2	🟦	⬜	▨	▨	▨	▨	🟦	⬜	⬜	⬜
Linde	Industrial trucks, tractors, trailers	Germany	3	3	2	3	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Marubeni Corporation	Wholesale trade	Japan	3	2	3	2	🟦	🟦	🟦	🟦	🟦	⬜	🟦	🟦	⬜	⬜
Metro	Retail	Germany	3	3	3	3	🟦	🟦	🟦	⬜	🟦	🟦	🟦	🟦	⬜	🟦

Please note: Companies are arranged in alphabetical order within the five groups and not by their individual scores.

🟦 **Disclosed** ⬜ **Not Disclosed** ▨ **Not Applicable**

			EVALUATIONS				**OBSERVATIONS**									
Company Overview			**EIRIS rankings**				**Voluntary policies and reporting**									
			group (overall)													
Company	**Sector**	**Country**	**Overall**	**Environment**	**Social**	**Governance**	**Environmental Policy**	**Environmental Report**	**Human Rights Policy**	**Human Rights Report**	**Supply Chain Labour Policy**	**Supply Chain Labour Report**	**Anti-bribery Policy**	**Anti-bribery Report**	**Global Compact Signatory**	**GRI index**
Mitsui & Co	Wholesale trade	Japan	3	1	4	2	🟦	🟦	🟦	⬜	🟦	🟦	🟦	🟦	🟦	⬜
Nissan Motor Co	Motor vehicles	Japan	3	2	2	3	🟦	🟦	🟦	⬜	▨	▨	🟦	🟦	🟦	🟦
Panasonic	Electrical & electronic equipment	Japan	3	1	3	3	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	⬜	⬜
Pfizer	Pharmaceuticals	United States	3	2	2	3	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Procter & Gamble	Diversified	United States	3	2	3	3	🟦	🟦	🟦	⬜	🟦	🟦	🟦	🟦	⬜	🟦
Repsol YPF	Petroleum expl./ref./distr.	Spain	3	2	3	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
RWE Group	Electricity, gas & water	Germany	3	2	3	3	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Samsung Electronics Co.	Electrical & electronic equipment	Republic of Korea	3	1	4	2	🟦	🟦	🟦	⬜	🟦	⬜	🟦	🟦	🟦	🟦
Siemens	Electrical & electronic equipment	Germany	3	3	3	2	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦
Telefonica	Telecommunications	Spain	3	2	4	3	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	⬜	🟦
TeliaSonera	Telecommunications	Sweden	3	3	4	1	🟦	🟦	🟦	🟦	🟦	⬜	🟦	🟦	⬜	🟦
Thomson Reuters	Media	Canada	3	3	4	1	🟦	🟦	⬜	⬜	▨	▨	🟦	🟦	⬜	⬜
Toyota Motor Corporation	Motor vehicles	Japan	3	1	2	3	🟦	🟦	🟦	⬜	▨	▨	🟦	⬜	⬜	⬜
United Technologies	Transport equipment	United States	3	3	3	2	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	⬜	⬜
Volkswagen	Motor vehicles	Germany	3	2	2	3	🟦	🟦	🟦	🟦	▨	▨	🟦	🟦	🟦	🟦
Wal-Mart Stores	Retail	United States	3	3	3	2	🟦	🟦	⬜	⬜	🟦	🟦	🟦	⬜	⬜	⬜
AES Corporation	Electricity, gas and water	United States	4	5	4	2	🟦	🟦	⬜	⬜	▨	▨	🟦	🟦	⬜	⬜
Bertelsmann	Retail	Germany	4	4	3	4	🟦	🟦	🟦	⬜	▨	▨	🟦	🟦	🟦	⬜
Cemex	Non-metallic mineral products	Mexico	4	3	3	4	🟦	🟦	🟦	⬜	▨	▨	🟦	🟦	🟦	🟦

			EVALUATIONS				**OBSERVATIONS**									
Company Overview			**EIRIS rankings**				**Voluntary policies and reporting**									
Please note: Companies are arranged in alphabetical order within the five groups and not by their individual scores.			group (overall)				🟦 **Disclosed**			⬜ **Not Disclosed**			▨ **Not Applicable**			
Company	**Sector**	**Country**	**Overall**	**Environment**	**Social**	**Governance**	**Environmental Policy**	**Environmental Report**	**Human Rights Policy**	**Human Rights Report**	**Supply Chain Labour Policy**	**Supply Chain Labour Report**	**Anti-bribery Policy**	**Anti-bribery Report**	**Global Compact Signatory**	**GRI index**
Honda Motor Co.	Motor vehicles	Japan	4	2	4	4	🟦	🟦	⬜	⬜	▨	▨	🟦	⬜	⬜	⬜
McDonald's Corporation	Food & beverages	United States	4	4	4	2	🟦	🟦	🟦	🟦	🟦	🟦	🟦	🟦	⬜	🟦
Mitsubishi Motors	Motor vehicles	Japan	4	3	4	3	🟦	🟦	⬜	⬜	▨	▨	🟦	🟦	⬜	⬜
Schlumberger	Other services	United States	4	4	4	3	🟦	🟦	⬜	⬜	▨	▨	🟦	⬜	⬜	⬜
Singtel	Telecommunications	Singapore	4	3	5	2	🟦	🟦	🟦	⬜	⬜	⬜	🟦	⬜	🟦	⬜
Thyssenkrupp	Metal & metal products	Germany	4	4	3	3	🟦	🟦	🟦	⬜	▨	▨	🟦	🟦	⬜	⬜
Hutchison Whampoa	Diversified	Hong Kong, China	5	5	5	4	🟦	⬜	⬜	⬜	⬜	⬜	⬜	⬜	⬜	⬜
Petronas - Petroliam Nasional	Petroleum expl./ref./distr.	Malaysia	5	5	3	5	🟦	⬜	🟦	⬜	▨	▨	⬜	⬜	⬜	⬜

Source: UNCTAD, based on data from EIRIS.

a. The table includes the following companies which were listed in UNCTAD's *WIR08* list under the name shown in brackets: GDF Suez (Suez), Deutsche Post World Net (Deutsche Post AG), Daimler (DaimlerChrysler), ArchelorMittal (Mittal Steel Company NV), Anheuser-Busch InBev (Inbev SA), Rio Tinto (Alcan), Thomson Reuters (Thomson Corporation, now part of Thomson Reuters), Panasonic (Matsushita Electric Industrial Co, Ltd), StatoilHydro (Statoil Asa).

b. UNCTAD's *WIR08* list originally included Alcan, which was acquired by Rio Tinto in November 2007. This paper has replaced the assessment of Alcan with that of Rio Tinto.

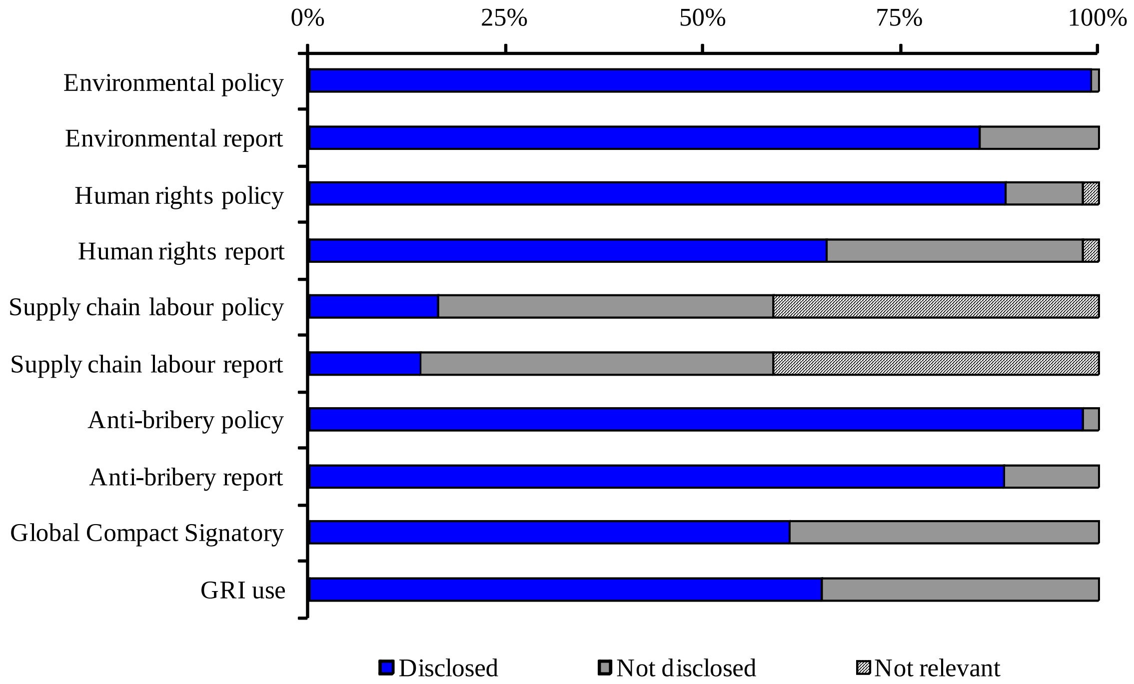
2. Analysis of observations: Voluntary TNC policies and reporting on corporate social responsibility

This section provides an analysis of the observations in Table I.4, on companies' voluntary policies and reporting.

There is little ready accounting of the growth in CSR policies and codes among TNCs, but it is apparent that the vast majority of such policies have been created in the 1990s and early 2000s. Of those firms that clearly publish a creation date for their policies, most did not exist as recently as 1990. In 1999 OECD published an "inventory" of 233 codes of conduct in an attempt to shed some light on what it referred to as a topic which is "largely understated due to its novelty".[15] CSR codes were created by both individual enterprises as well as industry associations. By the end of the 1990s, the creation of policies on CSR and related codes of conduct had begun to spread rapidly throughout large firms. By the early 2000s at least half of the 100 largest firms by global revenue, and a third of the 100 largest firms by foreign assets had a CSR policy of some kind.

Today, most large enterprises have specific policies and reports on CSR issues. The findings of this study indicate that a range of CSR subjects are addressed in both the policies and the reports of a majority of the world's largest 100 TNCs. As seen in figure I.1 below, for example, two areas in particular stand out: company practices regarding environmental issues and practices relating to bribery. In both of these areas, nearly all of the 100 largest TNCs have developed policies and reporting practices. More than three quarters of the 100 largest TNCs also have management policies to deal with human rights issues and more than half provide public reporting on their activities in this area.

Figure I.1. CSR practices among the 100 largest TNCs
(Percentage of firms disclosing each item)



Source: UNCTAD, based on data from EIRIS.
Note: Some issues are considered by EIRIS as "not applicable" for some TNCs based on EIRIS' assessment of their operations.

One of the weakest and also most complex areas of TNC policy development on CSR issues concerns supply chain practices. While this issue is considered relevant for at least half of the top 100 TNCs, less than a quarter appear to be adopting relevant policies (figure I.1). There is some apparent disconnect between the number of policies on human rights and the number of policies on supply chain issues, since human rights issues can often emerge within supply chains. This situation highlights an area of ongoing development: the rising importance of the supply chain understanding of CSR for all industries. While CSR in the supply chain has typically become relatively well integrated in many labour intensive industries (e.g. apparel) it remains less developed in other industries.

As TNCs rely on vast value chains spread around the globe, the most advanced implementation of CSR policies involves a strong focus on supply chains. One dynamic influencing CSR in the supply chain is the nature of the supply chain itself. Put simply, CSR issues are supply chain specific: the exact issues (environment, labour, etc) can vary from one industry to another, and the ability of TNCs to examine and influence supply chain issues depends in large part on the number of actors in the supply chain, the relative power of each actor, and the number of links in the chain between the TNC and the issue of concern. Therefore, different practices can be expected to emerge in different industries.

One of the tools commonly deployed among TNCs to manage supply chain CSR issues is a code of conduct coupled with regular supplier inspections by the TNC or a third party. Management by certification is also a common tool among TNCs and involves requiring suppliers to adopt certified third party standards, such as ISO 14000 (for environmental management) or SA 8000 (for labour practices).

Also indicated in figure I.1, nearly two thirds of the world’s largest TNCs are signatories to the United Nations Global Compact. Since its launch in 1999 by the United Nations Secretary-General, the Global Compact has become the world’s leading corporate responsibility initiative, with over 5,200 business signatories in 130 countries.[16] The Global Compact contains 10 principles based on internationally agreed standards and conventions which cover a range of ESG practices. The large number of TNCs that have signed the Global Compact is an important indicator of those companies’ understanding of the need to balance economic rights with social and environmental responsibilities.

The Global Reporting Initiative is another leading global CSR initiative. The GRI, a multi-stakeholder civil society organization, produces the single most commonly used standard in CSR reporting. Approximately two thirds of the 100 largest TNCs use the GRI guidelines.[17]

3. Analysis of evaluations: Overall EIRIS rankings

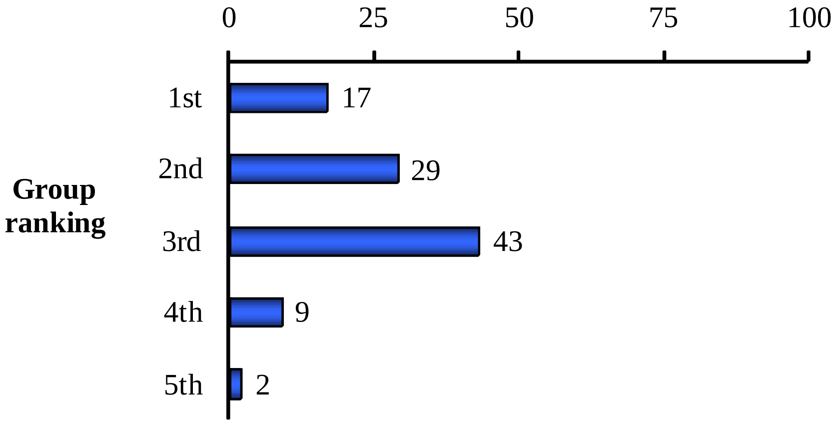
Just under half (46) of the world’s 100 largest TNCs fall into the first and second groups in the overall rankings (see figure I.2 below), demonstrating a relatively better job in integrating ESG policies, management practices and reporting than their peers in the bottom three management performance groups.

It is perhaps indicative of the challenges that companies face in this area that the greatest number of TNCs (43), fall into the third management performance group, the middle ranking position. This could be attributable to a number of issues (some detailed in sections D to F) including good management practices in one area (e.g. environment) and relatively poor management practices in another area (e.g. social). However, it does appear that many companies in this third group have fairly consistent and middling management performance across all three ESG categories. This suggests that the companies have at least a basic awareness of their ESG risks and the need to address their responsibilities in these areas, but have yet to develop sophisticated policies, management systems and reporting practices.

Thus, the state of CSR among the world's largest companies would appear to be this: most TNCs are aware of the issues, but have not yet fully developed corresponding policies and practices. The analysis presented here indicates that best practice has still not permeated through to all of the largest companies in the world. If the first group alone is taken as current best practice, then less than a quarter of the largest TNCs studied can be said to employ best practice in this area.

Figure I.2. Overall environmental, social and governance rankings by group

(Number of companies, max = 100)



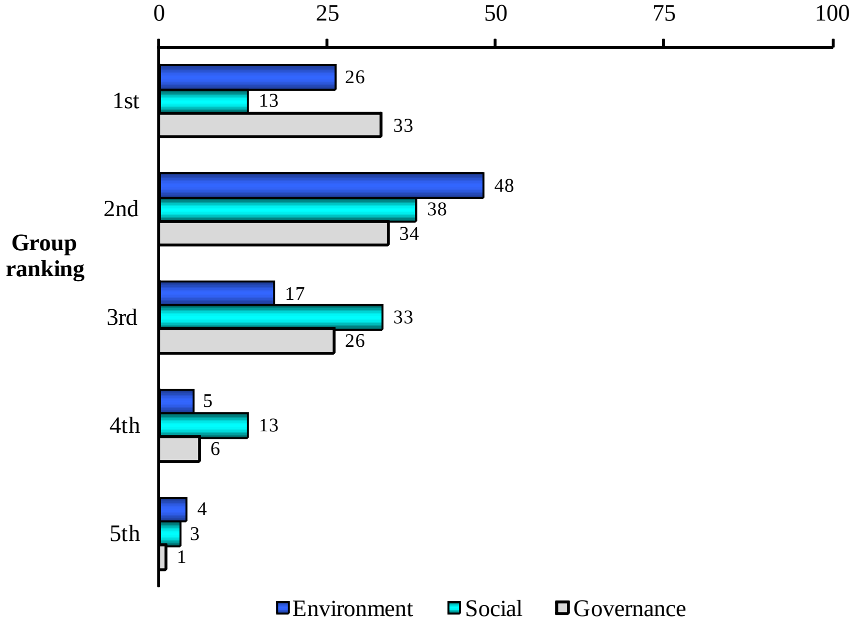
Source: UNCTAD, based on data from EIRIS.

Although the sample was not designed for sector analysis, the companies' overall rankings indicate that there is no evident segregation of sectors across the groups. No particular sector demonstrates outright leadership in the overall rankings, although the "Petroleum expl./ref./distr." sector has the highest proportion of companies in the first group. This sector's management performance may be due to a greater number of sector specific social and environmental challenges from stakeholders.

A company's overall ranking provides a good indication of its score in the individual environmental, social and governance management practice categories. As can be seen in the rankings in Table I.4, those companies achieving overall rankings in the first group frequently ranked first or second in the individual ESG categories, with relatively strong management practices across all the ESG areas. Figure I.3 below shows a breakdown of management performance on each individual ESG category. It shows that most companies ranked in the first two groups for environment (74 companies) and governance (67 companies), however, they ranked comparatively lower in regards to social issues, with only 51 companies included in the first two groups. Each category is examined in more detail in the following sections.

Figure I.3. Individual environmental, social and governance category rankings by group

(Number of companies, max = 100)



Source: UNCTAD, based on data from EIRIS.

D. Environmental issues

1. Criteria: Environmental issues

To assess environmental management practices, the companies were evaluated on their strategies to address environmental issues, climate change and biodiversity impacts. The response to environmental issues is assessed under the following categories:

- Policy;
- Management systems; and
- Reporting.

Table I.5. Example indicators required for a company's environmental, climate change and biodiversity policy, management systems and reporting to be assessed as "good"

Policy	**The company has…**
Environmental – general	o Identified all key environmental issues impacted by their operations o Board level responsibility for environmental policy o Set objectives and targets o Commitment to environmental auditing o Commitment to stakeholder involvement
Climate Change	o Commitment to addressing its climate change impact
Biodiversity	o A policy identifying biodiversity as a key impact of its operations

Management systems	**The company does…**
Environmental – general	o Set objectives and targets o Develop an environmental audit plan o Conduct internal reporting and review processes o Implement externally-certified management systems (internally-developed systems also considered)
Climate change	o Assign senior management responsibility for climate change
Biodiversity	o Source natural resources from suppliers with an appropriate biodiversity policy or certification scheme o Develop a biodiversity action plan in line with the Convention on Biological Diversity
Reporting	**The company reports…**
Environmental – general	o Meaningful performance data o Progress against objectives o Discussion of sustainability issues o Independent verification of ESG information
Climate change	o Performance targets and emissions data
Biodiversity	o Assessment of impacts and demonstration of biodiversity improvements

Note: This is only a selection of the criteria used in the EIRIS ranking methodology; it is not an exhaustive list.

Impact assessments are conducted by ESG analysts to determine the impact that a company has on the environment generally or a specific environmental issue, e.g. biodiversity. Subsequent to the analysis outlined above, the sample was also assessed and categorized regarding their overall impact on the environment, as well as in relation to the specific issue of biodiversity to determine whether the company has a high or low impact.

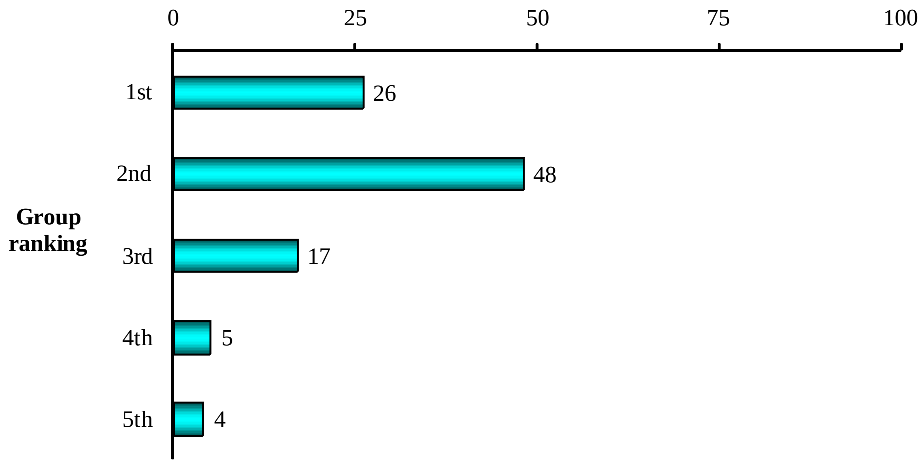
Box I.1. Company practice: Environment

Toyota Motor reports on a range of key issues through which it has an impact on the environment. The company reports that 100 per cent of its operations are certified to ISO 14001 environmental management standards and communicates its commitment to include product stewardship principles in product design. The company has developed “Eco-vehicle Assessment” systems and publishes an “Environmental Action Plan” and “Global Warming Prevention Initiative” which address the reduction of CO_2 emissions in all stages of vehicle development and design.

2. Category findings: Environmental issues

Nearly two thirds (74) of the companies’ grades place them in the first and second groups. Very few companies (9) fall into the lower fourth and fifth groups. This indicates a widespread awareness among large TNCs of environmental issues and relatively strong management commitment within these firms to developing related policies and practices. The data, however, also raises questions about the slightly more than one quarter of TNCs that rank in the third to fifth groups on environmental management performance (see figure I.4 below). While a majority of companies seem to have developed relatively good practices, a sizeable minority continue to have relatively poor practices compared to current international best practice.

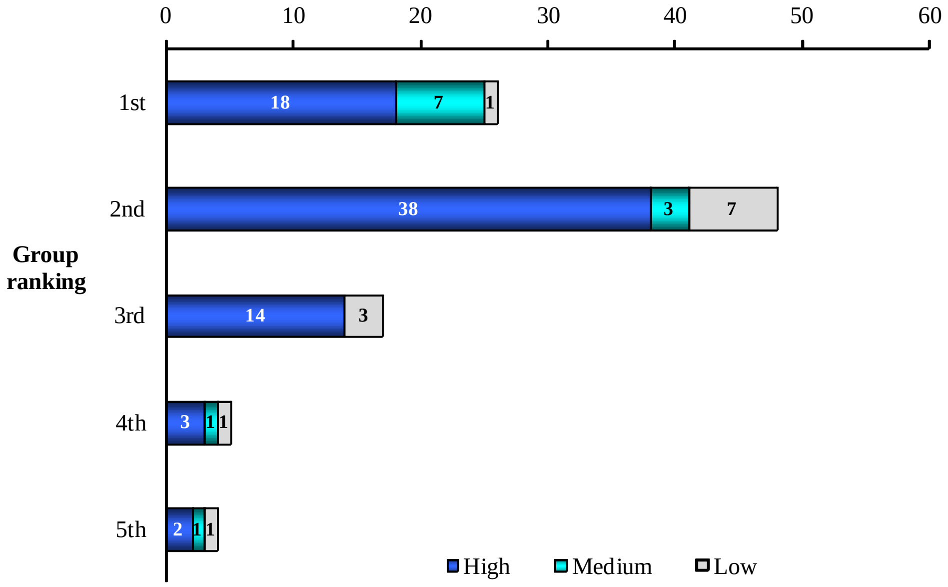
Figure I.4. Environment rankings by group
(Number of companies, max = 100)



Source: UNCTAD, based on data from EIRIS.

Of the 100 TNCs, the majority (75) were assessed as having a high environmental impact, and these "high-impact" companies are found across all of the five groups (figure I.5 below). Of the 12 companies assessed as having a "medium impact", 7 of these score in the first group for environmental management performance and all of these companies except one are from the "Electrical and electronic equipment sector". The 13 "low-impact" companies are those in the "Telecommunications" and "Media" sectors. Eight of these 13 companies rank in the first and second groups. Figure I.5 illustrates the level of environmental impact of the companies by group.

Figure I.5. Environmental impact by group
(Number of companies, max = 100)



Source: UNCTAD, based on data from EIRIS.

One may speculate that the strong environmental evaluations of companies in this sample is related to the large number of companies operating in high impact sectors which face a significant risk of damaging the environment and are exposed to more public scrutiny than companies in low-impact sectors. Increased public and stakeholder pressure, along with more stringent operating regulations, means that companies in higher impacting industries often allocate significant resources to addressing their impacts and this in turn leads to relatively better practices in managing and reporting environmental impacts. While the data is consistent with this reasoning, the results also show that a small number of the high-impact companies (5) rank in the fourth and fifth groups, and approximately two thirds of the lower-impact companies rank in the first and second groups. This indicates that some high-impact companies are yet to adopt best practices, while many companies in low-impact industries are already well on their way to addressing their impacts and are actively developing policies and/or strategies to do so.[18]

Box I.2. Company practice: Climate change

According to Rio Tinto, its management response to climate change involves a Climate Change Leadership Panel which includes board and senior executive members. The company also reports it has established a system for board or senior management level remuneration to be linked to its greenhouse gas emission efficiency and energy use efficiency targets. Its policy on climate change and energy makes reference to the findings of the Intergovernmental Panel on Climate Change (IPCC) and the company provides externally verified reporting on its greenhouse gas emissions levels and progress against its objectives and targets.

E. Social issues

1. Criteria: Social issues

In order to assess management practices on social issues, the companies were evaluated on their strategies to address risks relating to human rights, labour standards in the supply chain and health and safety.[19] Management practices in these areas were assessed in terms of the following categories:

- Policy;
- Management systems; and
- Reporting.

Table I.6. Example indicators required for a company's human rights, supply chain and health and safety policy, management systems and reporting to be assessed as "good"

Policy	**The company has…**
Human rights	o A statement of support for the core ILO Labour Standards o A statement of support for the Universal Declaration of Human Rights o Board level responsibility for human rights policy o Communicated its human rights policy to all employees
Supply chain labour practices	o A statement of commitment to core International Labour Organization (ILO) Labour Standards
Health and safety	o Senior responsibility for health and safety

Management systems	**The company does…**
Human rights	o Identify major human rights challenges o Train all employees o Consult with stakeholders o Develop procedures to remedy non-compliance
Supply chain labour practices	o Communicate policies to suppliers o Conduct supplier audits and training o Develop remedies and procedures for addressing non-compliance by suppliers o Assign senior management responsibility for supply chain labour practices
Health and safety	o Provide evidence of OHSAS 18001 certification o Provide employees with health and safety training
Reporting	**The company reports…**
Human rights	o Details of relevant management systems including risk and impact assessments o Engagement with stakeholders
Supply chain labour practices	o Cases of non-compliance o Details of communication with suppliers on the subject of labour practices o Details of staff training activities conducted for company and supplier staff
Health and safety	o Evidence of quantitative performance data

Note: This is only a selection of the criteria used in the EIRIS ranking methodology; it is not an exhaustive list.

a. Human rights

Although human rights abuse can occur in all countries, the focus is on companies with activities in particular countries where human rights are identified to be most at risk (based on a risk assessment using information from a range of sources, including the Freedom House Annual Survey, World Bank Political Stability and Absence of Violence Governance Indicator, Amnesty International and Human Rights Watch). Indicators used to provide a benchmark for the human rights research in this review are based on internationally endorsed conventions that have been adopted by a majority of countries, such as the United Nations Universal Declaration of Human Rights and the core Conventions of the International Labour Organization (ILO).

While human rights abuse can occur in companies of any size, the focus in this review was on companies assessed as having a “large” presence in the countries identified above. A company’s activities are assessed as “large” or “small” depending on the turnover gained or employees working in the particular country, i.e. turnover or assets of more than £100 million or over 1,000 employees in its operations in the country is a “large” presence. Anything below this limit is considered to be a “small” presence.

b. Supply chain labour practices

Due to the increasingly international nature of production and trade, an ever-growing number of products are being assembled or processed in many different countries around the world. A number of stakeholder groups are paying greater attention to working conditions in the countries of origin. The companies were categorized according to their exposure to risks of human rights violations in their supply chain based on their sector, the state of the regulatory infrastructure where their products are produced, and the size of their operations. Only companies determined as having a high or medium exposure to breaching international standards of labour practices were assessed.

c. Health and safety

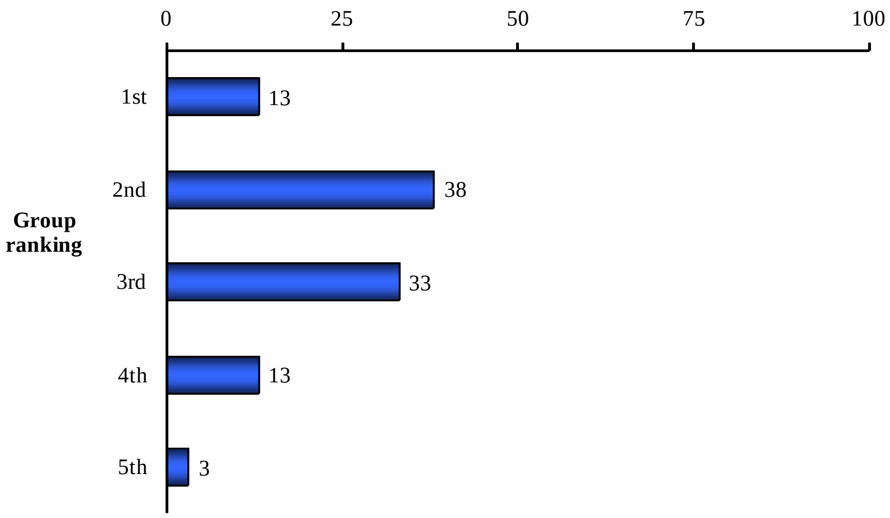
Health and safety management of the companies was also assessed as part of the social analysis. Indicators used to assess companies' health and safety practices included evidence of quantitative performance data and details of staff training.

2. Category findings: Social issues

All 100 companies were assessed for their management performance on health and safety issues, whereas 98 were considered to have a risk exposure to human rights abuses (and thus assessed on that set of criteria) and 30 were considered to have a significant risk of problems with supply chain labour practices.

The study finds that the majority (71) of companies are ranked in the second and third groups with 38 and 33 companies respectively (Figure I.6). Only 13 companies are ranked in the first management performance group and 16 are ranked in the lower fourth and fifth groups.

Figure I.6. Social rankings by group
(Number of companies, max = 100)



Source: UNCTAD, based on data from EIRIS.

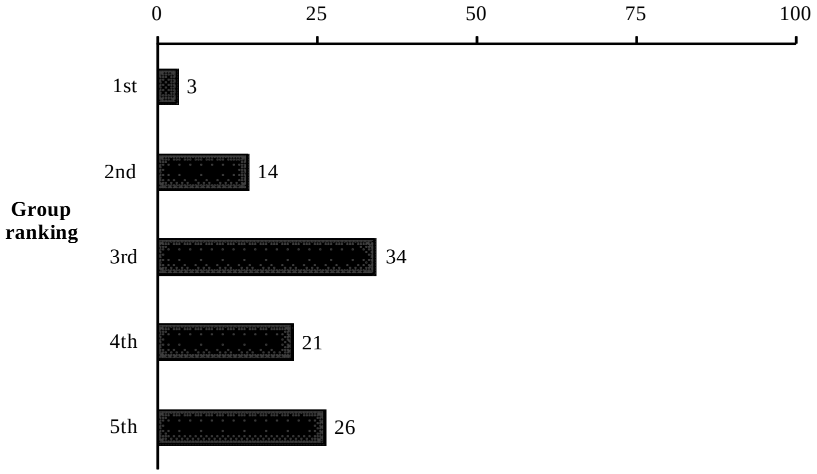
Further analysis of the companies' management performance in each of the three areas of health and safety, human rights and supply chain labour practices was undertaken in order to identify specific areas of strength and weakness.

a. Human rights

As noted above, all but two of the 100 companies are assessed as having an exposure to human rights abuses through their operations. One of the greatest challenges facing many TNCs is not the risk of directly committing human rights abuses; rather it is the risk of being *complicit* in the human rights abuses of their joint venture partners, contractors, and others with whom the company has a formal relationship. To deal with the complexities of avoiding complicity in human rights abuses, best practice in global companies includes a range of policies, management practices and reporting systems. An analysis of the companies' human rights practices (e.g. existence of relevant policies, management systems and performance reporting) is shown in figure I.7 below.

Figure I.7. Human rights rankings by group

(Number of companies, max = 98)



Source: UNCTAD, based on data from EIRIS.

The findings show that only 17 of the 98 companies assessed for human rights practices are ranked in the top two management performance groups (which could be considered current best practice), with only 3 in the first group and 14 in the second group. The remaining 81 are found in the third, fourth and fifth groups. Most (90), have established a human rights policy and 66 provide a report on this subject. This indicates that the majority of the companies are at least *aware* of the importance of this issue and have taken initial steps to address the subject.

The majority of TNCs, however, are not meeting best practice in this area by not putting in place adequate management systems to implement policy and monitor performance. This is, at least in part, due to the complexities associated with the implementation of human rights policies and management systems, including the complications associated with working in environments with a weak legal infrastructure.

Box I.3. Company practice: Human rights

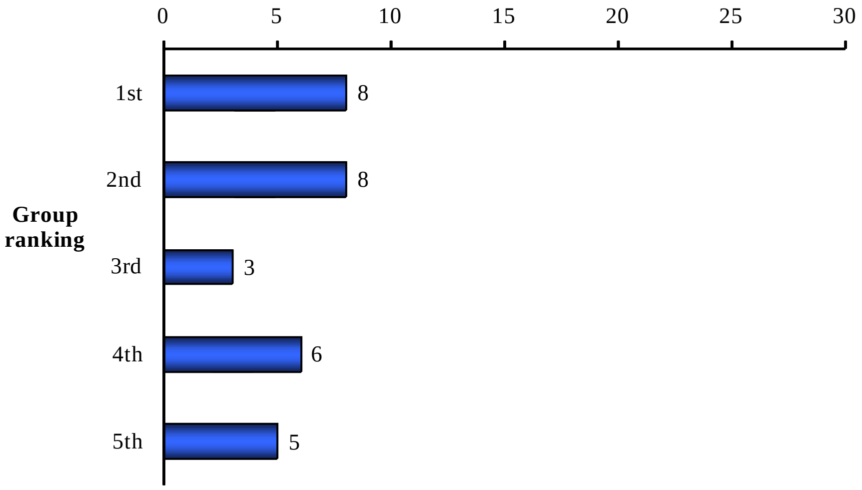
Ford Motor Company reports on major human rights issues it faces and reports that it has taken steps to integrate its response to these issues into its management systems. The company reports that its human rights policy is the subject of regular internal review, has been translated into various local languages and is the subject of mandatory training for all Ford employees, agencies and contractors globally. The company conducts and publicly reports on assessments of the implementation of its human rights policy and seeks comment from selected members of civil society on its human rights policy.

b. Supply chain labour practices

Of the 100 companies in the study, 70 are considered to have low- or no-risk of exposure to supply chain labour malpractices and therefore their overall social ranking does not include this aspect in their assessment. The remaining 30 companies are considered to have a medium- to high-risk of supply chain labour malpractices, and have therefore been assessed for their management performance in this area. These 30 companies operate in a range of sectors including Textiles, Wholesale Trade, Retail and Food and Beverages. Given the small number of companies (30) assessed on this set of criteria, caution should be used in drawing conclusions from the analysis of this particular issue. Figure I.8 below provides an overview of how the management performance of these 30 companies was ranked on the subject of supply chain labour practices.

Figure I.8. Supply chain labour practice rankings by group, medium and high risk companies only

(Number of companies, max = 30)



Source: UNCTAD, based on data from EIRIS.

The findings show that 28 of the 30 companies (93 per cent) have established a policy for labour practices within their supply chain and 24 of 30 (80 per cent) provide a report on practices and performance. In terms of rankings, slightly more than half of the 30 medium-to high-risk companies are distributed within the first and second groups, with the remaining companies found in the third (10 per cent), the fourth (20 per cent) and the fifth (16 per cent) groups. These findings show that for this group of 30 medium and high-risk companies, about half are demonstrating good practices in this area, while the other half do not appear to have very developed management approaches to this issue. All of these companies have diversified and widespread supply chains and, while TNCs typically have a strong awareness of all aspects of their first tier suppliers, this awareness weakens the further one moves down the supply chain. Monitoring and auditing activities can be made extremely complex by vast webs of subcontractors and agents, and the rapid turnover of suppliers.

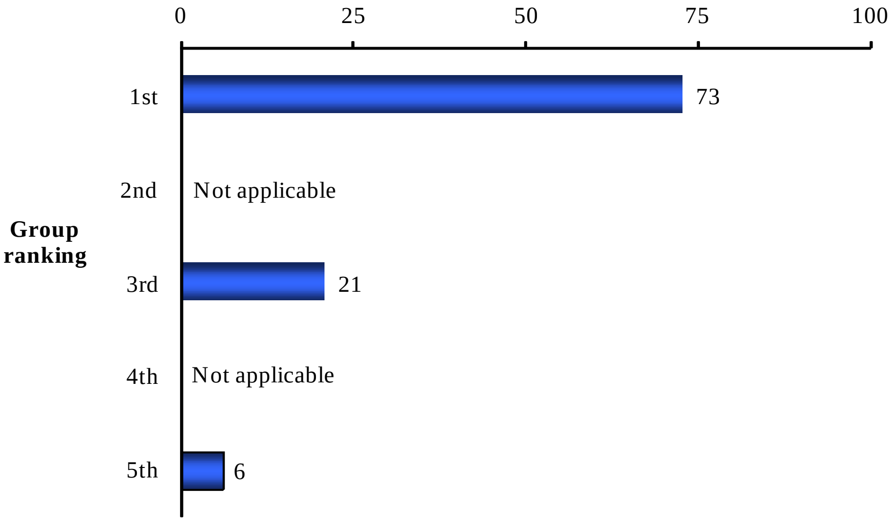
Box I.4. Company practice: Supply chain labour practices

According to Hewlett Packard, its supply chain policy is communicated to all suppliers through training. The company has a senior manager overseeing supply chain labour standards and monitors and audits its suppliers for compliance with its policy using third party external auditors. The company conducts preliminary risk assessments to identify suppliers with the highest risk of labour standards violations. Risk criteria include geographic location, chemical or labour-intensive processes, length of supplier relationship and commitment to global citizenship.

c. Health and safety

Health and safety assessments are based on a three-point scale, as opposed to the rest of the criteria, which are based on five-point scales, thus there are no companies ranked in the second or fourth groups. Figure I.9 shows that nearly two thirds (73) of the 100 TNCs are in the first group, while 21 and 6 are in the third and fifth groups respectively. This finding shows that health and safety issues are typically the subject of good management practices. It is nevertheless of concern to note that just over a quarter (27) of the world's 100 largest TNCs received relatively low grades for health and safety management performance. This suggests that a significant minority of large global companies, with hundreds of thousands of employees, require additional attention on this issue, and considerable strengthening of their current practices.

Figure I.9. Health and safety rankings by group
(Number of companies, max = 100)



Source: UNCTAD, based on data from EIRIS.

The individual analysis of the health and safety, human rights and supply chain management practices shows that, within the category of "social", companies perform better in addressing health and safety impacts compared with their management performance on human rights and supply chain labour standards. Concerning these latter two areas, while most companies with risk exposures to these subjects have established policies and public reporting, the majority of companies examined still fall short of the best practices being demonstrated by their peers.

F. Governance issues

1. Criteria: Governance issues

Good corporate governance practices are essential to ensure accountability to investors, regulatory bodies and other stakeholders. EIRIS' assessment of corporate governance issues focuses on board practice; with a focus on structure and independence, and anti-bribery efforts.

a. Board practice: Structure and independence

The structure of a board is important for providing good corporate governance and ensuring that company directors are held accountable for corporate conduct and performance. Transparency in board structure and practice can help provide this accountability while also helping to ensure that a company is managed in the best interests of its shareholders and society at large. While many indicators can be employed to evaluate board practice, the four key indicators used by EIRIS are:

(a) The separation of the roles of chair and chief executive;

(b) Proportion of independent directors;

(c) Independence of the audit committee; and

(d) Disclosure of director remuneration.

These four indicators draw upon UNCTAD's *Guidance on Good Practices in Corporate Governance Disclosure,*[20] which in turn is based on best practices recommended by OECD and the national corporate governance codes of countries from around the world.

It is important to note that national codes of governance vary from country to country, due mainly to differences in company law and regulation as well as customary practices. The degree of independence of the board is particularly important in improving the oversight of executive (or "inside") directors, i.e. directors who also serve within the company as senior managers. Differences in national codes mean that companies operating in some countries may not meet this requirement. For example, Germany and Austria's national codes require employee representation at board level and employees are not regarded as independent directors. The *OECD Principles of Corporate Governance*[21] refers to independence of the board as meaning independence and objectivity with respect to management with important implications for the composition and structure of the board. Although employee representatives can be considered to be independent of a company's management, this study takes a much more cautionary approach and considers non-executive directors as *not* independent if they have served the same company for a long period of time (over 10 years), have close family relationships with executive directors of the company, represent a major shareholder/supplier/customer of the company, have a close consultancy or advisory relationship or contract with the company, or were otherwise employed by the company or one of its subsidiaries within the previous three years. There are many companies that have employee representatives on their boards and do not meet the requirement for board independence, and yet there are others that, while adhering to the requirement of employee representation, continue to have a board majority of independent non-executive directors.

b. Anti-bribery

Corporate corruption, in particular the bribery of foreign public officials, can have serious negative consequences for economic development and the integrity of national economic policies. The last few decades have seen the rise of a number of national and international instruments[22] to curb such practices and this new international consensus on bribery has been reflected in the 10th Principle of the United Nations Global Compact. For involvement in bribery, most TNCs are today liable, both in their home countries[23] as well as their host countries, to a range of serious consequences (from criminal sanctions and fines to incarceration for executives).

Many government laws in place to curb bribery of foreign officials include particular guidance to companies on their responsibility to put in place adequate management systems to discourage, detect and report any corrupt practices in their business operations. In some situations, the existence of robust corporate anti-bribery management systems can reduce or eliminate penalties that would have resulted from a rogue employee engaging in bribery.[24] Thus, anti-bribery management systems have become a best practice component of most leading international companies.

This study evaluates a company's anti-bribery management response by analysing its:

- Anti-bribery policy;
- Management systems; and
- Public reporting.

Table I.7. Example indicators required for a company's anti-bribery practices to be assessed as "good"

Policy	**The company has…** o Explicit policy prohibiting bribery and facilitation payments o Board level commitment to legal and regulatory compliance o Board level responsibility for anti-bribery policy
Management systems	**The company does…** o Communicate and train employees and business partners regarding anti-bribery policy o Demonstrate evidence of compliance mechanisms o Maintain "whistle-blowing" procedures
Reporting	**The company reports…** o Details of policy, communication, training and auditing

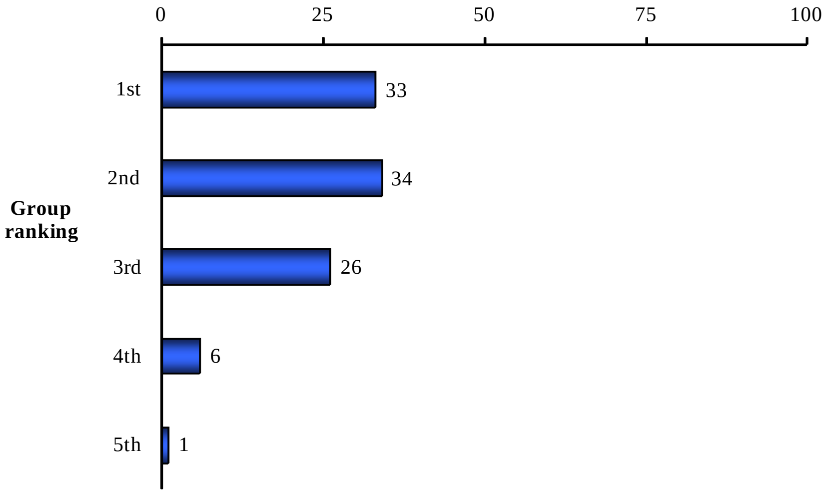
Note: This is only a selection of the criteria used in the EIRIS ranking methodology; it is not an exhaustive list.

2. Category findings: Governance issues

Two thirds of the companies obtain a governance ranking in the first and second groups, with about one quarter falling in the middle or third group and only seven companies falling in the fourth and fifth groups (see figure I.10). The sectors found in the first group are wide ranging, including the following: Media, Telecommunications, Motor vehicles, Mining and quarrying, Electrical and Electronic Equipment, Petroleum expl./ref./distr., Pharmaceuticals, and Food and beverages. There is no obvious segregation of sectors within the range of assigned grades; however, 9 of the 33 companies in the first group operate in the extractive sectors.

Figure I.10. Governance rankings by group

(Number of companies, max = 100)



Source: UNCTAD, based on data from EIRIS.

Box I.5. Company practice: Anti-bribery

According to Vodafone Group, it communicates its bribery and anti-bribery policies through induction programmes and internal newsletters to employees as well as contractors and suppliers. The company monitors compliance to its policies with all subsidiaries required to complete and submit self-assessments of their anti-bribery performance, along with supporting evidence of implementing initiatives, to the parent group on an annual basis. Whistle-blowing procedures have also been established to enable employees to report, in confidence or anonymously, any potential violation of the company's business principles. Risk assessment procedures are undertaken to measure the level of corruption risk for each operation and due diligence mechanisms to reduce bribery risks are undertaken before establishing joint ventures and in the evaluation of prospective contractors and suppliers.

a. Board practice: Structure and independence

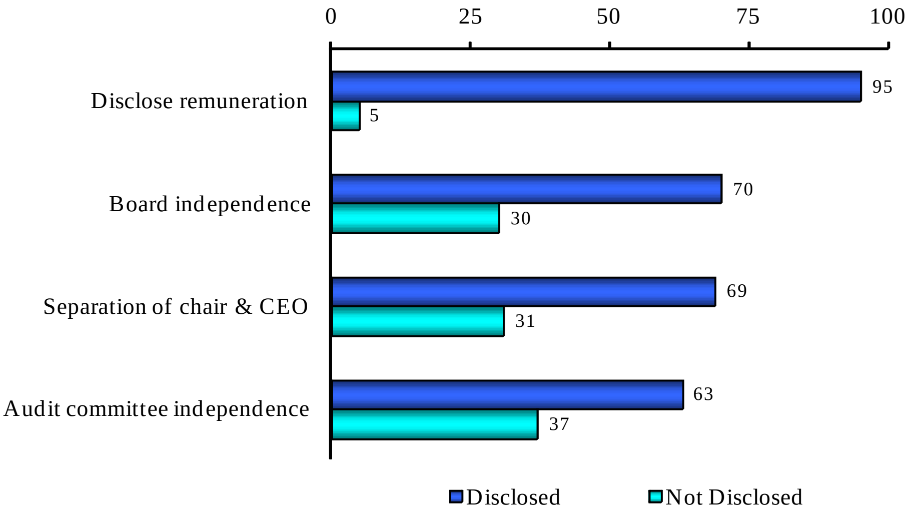
Figure I.11 shows an analysis of board practice performance against the four elements of board practice. It finds that:

- 70 companies meet the criterion for having a significant number (over 50 per cent) of independent board members;
- 69 separate the roles of the chief executive and the chairperson;
- 63 have an audit committee with a majority of independent members; and
- 95 disclose directors' remuneration.

It is interesting to note that, of the companies not meeting the board independence and audit committee independence criteria, approximately 30 and 37 respectively operate in countries requiring employee representation on the board.

Figure I.11. Companies and individual elements of board practice

(Number of companies, max = 100)



Source: UNCTAD, based on data from EIRIS.

b. Anti-bribery

Amongst the world's 100 largest TNCs, all but two companies have an anti-bribery policy in place. Furthermore, all but 12 companies have reported on practices in this area. This is an encouraging observation, indicating that major TNCs understand the importance of this issue and undertaking efforts to ensure responsible business practices in this area. The relatively common existence of anti-bribery policies and practices among leading TNCs is a reflection of concerted international efforts among governments, industry and civil society.

G. Reflections on findings and recommendations

This chapter provided an analysis of EIRIS data on voluntary enterprise policies on CSR among the world's 100 largest TNCs. The enterprises were evaluated on the basis of their environmental, social and governance policies and practices. Using an industry standard ESG evaluation methodology, the companies were ranked into groups for overall management performance, as well as for the individual categories of environment, social and governance.

The vast majority of the largest TNCs are already communicating their active engagement with the social, environmental, and governance challenges facing their businesses. Nearly half (46) of the companies have ESG practices that were ranked within the first and second management performance groups. TNC practices in regard to environmental and governance issues tended to be better than for social issues. Over two-thirds of companies ranked in the first two management performance groups for environment and governance while the social rankings showed only 13 companies ranked in the first group and 38 within the second group.

This chapter makes it clear that TNCs reporting on CSR is now mainstream practice. The continued growth of CSR instruments at both the company level and within multi-stakeholder initiatives demonstrates the ongoing and rapidly growing demand placed on enterprises to meet a range of social and environmental expectations. In chapter II, evidence is seen of this increasing stakeholder pressure in the form of institutional investors and the responsible investment movement.

There is a growing tendency to regard CSR as an element of global governance, as reflected recently in statements by the G–8 and other international bodies.[25] In many cases, public sector bodies, such as the United Nations Global Compact, are taking a leading role in implementing and facilitating CSR instruments. At a national level as well, governments are implementing policies to encourage CSR practices within firms (e.g. through mandatory reporting rules). Taken together, the field of CSR represents a new “soft-regulation” policy dimension that can present policymakers with new options and tools for addressing key development challenges. It is therefore important to monitor developments in this area, noting both the development and effectiveness of current and emerging CSR instruments and initiatives.

While guidelines have been developed by UNCTAD ISAR and the GRI to encourage coherence and consistency, this chapter (and also chapter III, which focuses on TNC reporting on climate change issues) shows that further progress is needed to achieve more comparable coverage of issues in CSR reports. This could be encouraged by supporting existing voluntary initiatives and enhancing reporting standards in law or in the listing requirements of stock exchanges.

Complementing improved reporting frameworks, policy options exist in the area of corporate governance to promote improved corporate accountability on ESG issues. One proposal emanating from the investment community is to require companies to put their CSR reports to a non-binding shareholder vote at the annual general meeting.

ESG analysis will benefit from improve reporting and corporate governance structures. But attention should also be paid to the need for improvements in the coherence and consistency of ESG analysis itself. Issues of sustainability are not exclusively technical issues, and therefore any evaluation or analysis of the sustainability of enterprises would benefit from inputs from a range of stakeholders. Therefore, existing proprietary “black-box” systems for evaluating the ESG practices of enterprises might usefully give way to transparent “open-source” models that would allow for greater international debate, scrutiny, consensus and credibility.

Endnotes

[8] Some modifications to the original list have been made to account for recent mergers and acquisitions; these modifications are noted in the text below table 1.4 and in annex 1.2.

[9] EIRIS is a global provider of independent research into the social, environmental, and governance policies and practices of companies around the world. EIRIS, a United Kingdom-based not-for-profit organization, provides comprehensive research on more than 3,000 companies in Europe, North America, Africa and the Asia–Pacific region. EIRIS' research is the basis for the compilation of the FTSE4Good Index in the United Kingdom and the Johannesburg Stock Exchange's Socially Responsible Investment Index in South Africa. EIRIS analysis is also used in the management of financial assets by more than 100 institutional clients including pension and retail fund managers, banks, and private client brokers across Europe, North America, Australia and Asia. EIRIS works with clients to create their own ESG ratings and rankings, to engage with companies and to create specific funds for their clients. For more information about EIRIS visit www.eiris.org. The research conducted for this report was largely conducted by EIRIS, with contributions provided by EIRIS research partners from Germany, Spain, Switzerland, France, Australia and Republic of Korea. Imug was responsible for researching German and Swiss companies, EcoDes for Spanish companies, CAER for Australian companies, EthiFinance for French companies and KOCSR for Republic of Korea companies.

[10] The grades for "Health and safety" are assigned a numerical value from 1 to 3 (1 for No evidence of H&S management systems, 2 for Some evidence of H&S management systems and 3 for Clear evidence of H&S management systems).

[11] The one exception is "Health and safety" where scores range only from 1-3.

[12] The scoring system used is rounded to five decimal points, thus the break off points between groups is more precise than the one depicted here, which is rounded to the nearest whole number for ease of presentation.

[13] Relevance and materiality are not interchangeable terms; it is recognized that many things might be relevant which do not rise to the level of material. This report accepts that, in the midst of rapidly evolving social and environmental debates, many issues currently of relevance (e.g. greenhouse gas emissions) are rapidly becoming material, depending on the nature of the industry and the company in question. This study therefore treats all issues of relevance as potentially material, and refers to both relevant and material issues as elements of 'risk', i.e. factors that could impact a company.

[14] Information on Global Compact signatories was found via the Global Compact website (http://www.unglobalcompact.org/) using data available as of May 2009. Data on companies using the GRI guidelines was taken from the GRI Reports List available on the GRI website (http://www.globalreporting.org/GRIReports/GRIReportsList/) in May 2009.

[15] OECD (2000). *Codes of Corporate Conduct: Expanded review of their contents* (TD/TC/WP(99)56/FINAL). Available at http://www.olis.oecd.org/.

[16] Figures at 30 June 2009 on United Nations Global Compact website (http://www.unglobalcompact.org/ParticipantsAndStakeholders/).

[17] It should be noted that the subsidiaries of many of the companies in this study were listed in the GRI's database as providing a CSR report (or similar) using GRI guidelines, however, this review focused only on cases where the parent company itself was listed in the GRI database.

[18] Management of impacts on biodiversity and ecosystem services is also being addressed by some companies in a systematic way. Fifty-eight of the 100 TNCs sampled were found to have a significant impact on biodiversity. Current best practice in this area sees companies implementing policies in line with the Convention on Biological Diversity.

[19] The distinction between "Human rights" and "Supply chain labour practices" sometimes overlaps, but in this review it is primarily based on whether or not the victim is an employee or labourer in the company's production chain. If they are, then this would be considered under "Supply chain labour practices".

[20] UNCTAD's *Guidance on Good Practices in Corporate Governance Disclosure* is based on the recommendations of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). The Guidance is available online at http://www.unctad.org/en/docs/iteteb20063_en.pdf . This Guidance recommends independent leadership

---

within the board, separation of the roles of chairperson and chief executive officer, disclosure of remuneration, and that some board committees be staffed substantially or exclusively by independent directors.

[21] OECD, Principles of Corporate Governance, rev. ed. (2004). OECD Publishing. Available at http://www.oecd.org/document/49/0,3343,en_2649_34813_31530865_1_1_1_1,00.html.

[22] For example, the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which was drafted in 1997, and came into force in 1999. An example of a national law would be the Foreign Corrupt Practices Act (FCPA) passed in the United States in 1977.

[23] Thirty-eight countries have ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. As at March 2009, 97 of the 100 TNCs in this study come from countries that have ratified the convention. See http://www.oecd.org/department/0,3355,en_2649_34859_1_1_1_1_1,00.html.

[24] See for example United States 1989 Sentencing Guidelines.

[25] See for example G8 Leaders Declaration: Responsible Leadership for a Sustainable Future, 8 July 2009, paragraph 53.

CHAPTER II: THE LARGEST INSTITUTIONAL INVESTORS AND RESPONSIBLE INVESTMENT

A. Introduction

This chapter examines the investment practices of the world's largest institutional investors to determine to what extent they have adopted voluntary policies to encourage CSR among the companies in their portfolio. Institutional investors pool large sums of money to invest in securities and assets that typically include a range of fund types (e.g. pension funds, buffer funds and sovereign wealth funds) which may hold assets for different purposes.[26] These large globally active investment institutions are becoming increasingly aware of the potential impact of a range of non-financial issues (such as climate change, human rights, and corporate governance practices) on an investment proposition.

Over recent years, a new lexicon has evolved to describe this range of potential non-financial impacts on what has traditionally been seen as a purely financial calculation. From the perspective of an investor, the most widespread descriptor is "responsible investment" (RI). RI is a concept that captures the trend toward investors explicitly considering environmental, social and governance factors when implementing investment policy. As will be shown later in this chapter, this continued trend towards RI is seen as an important development. Because of the ownership interests that global investors have in companies, responsible investing is seen as a key point of leverage in improving CSR practices amongst companies, and promoting a longer term, sustainable development view of investment.

The remainder of section A provides background information on the concepts of universal ownership, fiduciary capitalism and RI and provides summary statistics of the world's largest pension funds. Section B provides methodological details of the study, including information about the selected sample and the RI indicators used in the analysis. The main findings are presented in section C, which includes an overview of all the funds, as well as a special focus on PRI signatories. The chapter concludes in section D with the policy recommendation that funds be encouraged to disclose their voluntary policies on ESG issues to all stakeholders.

1. Universal ownership and the rise of fiduciary capitalism

a. Pension funds as "universal owners"

A "universal owner" is an investor that invests in a broad cross-section of the economy, often holding a portfolio that is a representative sample of the total universe of available investment options. Pension funds (due to the size of assets they manage and the limitations they have on the size of ownership stakes they will take) have become diversified across most major asset classes, in effect becoming universal owners. Many pension funds, when purchasing equities for instance, will seek diversity by simply tracking broad market indices, thus in effect buying a portion of every single company in the market. It is common for universal owners (such as the pension funds considered in this chapter) to own thousands of different listed companies in their investment portfolios. In effect, universal owners "own" a stake in the entire economy. The Government Pension Fund of Norway, for example, is estimated to own approximately 1 per cent of all equities in the world, and 1.7 per cent of all listed European companies.[27]

To provide a sense of the scale of the universal owner group, the value of pension fund assets constituted 61 per cent of the average GDP of the top 10 markets at year-end 2008 (despite the exceptional drop in equity prices triggered by the financial crisis). As of December 2008, the assets of the world's 10 largest pension fund markets totalled $20,361 billion.[28] Over the decade to December 2008, global pension assets of the top 10 markets are estimated to have grown from $14,215 to $20,361 billion, a compound annual growth rate (CAGR) of 3.7 per cent (however, there is a marked dispersion in range of CAGRs in dollar terms, with Australia recording a CAGR of 13.4 per cent against Japan's CAGR of 1.8 per cent). The United States, Japan and the United Kingdom are the three largest pension markets by asset size, while Canada, Australia, Netherlands and Switzerland round out the top seven. Following are Germany, France and Ireland. Of these top 10 markets, the United States alone accounts for more than 40 per cent of assets. (See table II.1 and figures II.1 and II.2 for statistics on pension fund assets).

Table II.1. Global pension asset study 2009

Country	Assets ($ billion)	Percentage of GDP
United States*	$12'439	87%
Japan	$2'731	56%
United Kingdom**	$1'746	63%
Netherlands	$867	95%
Canada	$726	46%
Australia	$718	67%
Switzerland	$514	104%
Germany	$379	10%
France	$154	5%
Ireland	$87	31%

Source: Watson Wyatt Worldwide (2009).
Note: *Excludes Individual Retirement Arrangements (IRAs).
**Excludes personal and stakeholder Defined Contribution (DC) assets.

Figure II.1. Global pension assets 1998–2008 ($billion) by market

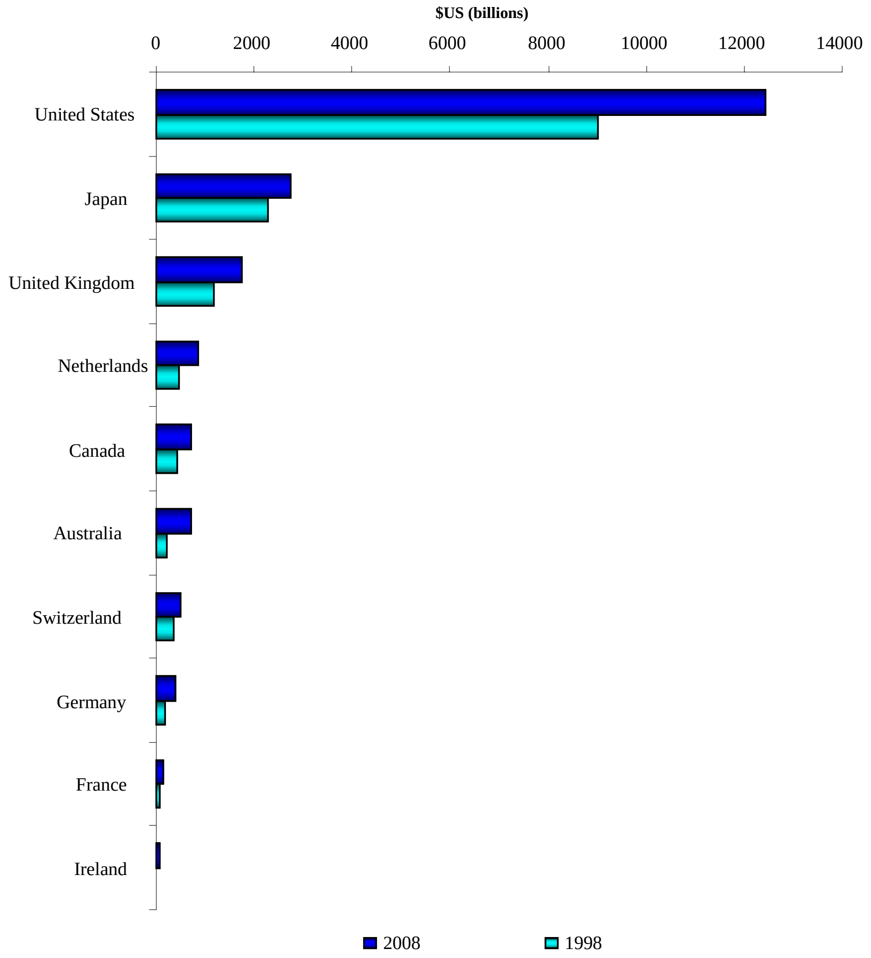
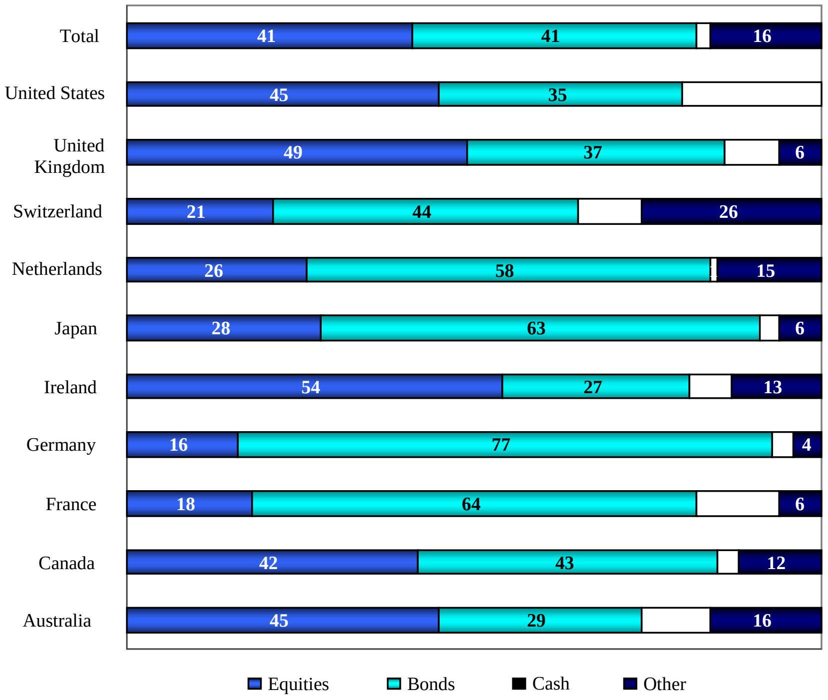


Figure II.2. Asset allocation 2008



Source Fig II.1 and II.2: Watson Wyatt Worldwide (2009).

b. Fiduciary capitalism: the long-term view of the universal owner

The concentration of investment holdings amongst pension funds, or “fiduciary institutions”, has led to the concept of “fiduciary capitalism”.[29] Fiduciary institutions, predominantly pension funds, were designed as vehicles to efficiently and predictably transform retirement savings into retirement incomes (or surplus State income into future State revenues in the case of sovereign wealth funds). The rise of fiduciary capitalism occurs as the fiduciaries, or trustees, of pension funds become the single largest group of investors on the planet. These investors, moreover, have particular characteristics that are beginning to impact the way managers, regulators and other investors think about capital markets. Among these characteristics are universal ownership and very long time horizons. In addition, given the very large number of beneficiaries served by a typical pension fund, the interests of these beneficiaries are increasingly aligned with general public interests. As a consequence of pension funds’ fiduciary responsibility to their beneficiaries, these funds are also displaying a general orientation towards the promotion of public welfare interests, including environmental and social factors.[30] The idea of “fiduciary capitalism” therefore suggests that, as the portion of capital markets owned by pension funds continues to grow, the markets and the companies listed on them will increasingly be shaped by the long-term public interests of these institutional investors.

Increased focus on ESG factors among all investors is driven in part by concerns arising from the large institutional investors. With their universal ownership, this class of investor has no interest in one industry externalizing costs (e.g. environmental or social costs) to the detriment of other industries. As corporate governance expert Robert Monks observes, “Nothing is external to a global shareowner”.[31] Thus, universal owners, with the overriding goal of strengthening the long-term viability of the majority of companies in their portfolio, can have an interest in encouraging reforms (e.g. the reduction of climate change emissions), even if such reforms might impose a cost on a minority of companies in their portfolio. In addition, with their very long time horizons, pension funds see genuine material risks from issues such as climate change, even if many of the most damaging impacts may not manifest themselves for more than a decade. Hence, ESG factors, and the materiality of these issues, are increasingly stressed by institutional investors.

The significant ownership stakes that universal owners hold in companies are increasingly being used as an important driver of corporate social responsibility. A key component of responsible investing is promoting the importance of ESG issues within companies. In effect, the responsible investor is influencing investee companies to demonstrate corporate social responsibility in their operations.

2. Responsible investment

a. Responsible investment defined

Responsible investment (RI) refers to the efforts of investors to incorporate ESG issues into investment decisions and to actively engage with investee companies to encourage improved ESG practices. This underlying understanding of RI has remained constant despite the dynamism of recent trends in this area. New investment strategies are announced by asset owners, investment (or asset) managers and professional service providers almost on a daily basis, and relate to (a) negative and/or positive screening of companies or sectors; (b) sustainability-focused investment strategies; (c) innovations in ESG screens and metrics; (d) revised best-of-sector approaches; (e) thematic investment; and (f) new shareholder networks aimed at company engagement and corporate governance activism.

In recent years, international consensus on RI's basic principles has emerged in the form of the United Nations-backed Principles for Responsible Investment (PRI). The PRI is a framework to assist fiduciaries and institutional investors to incorporate ESG issues into investment decision-making and ownership practices (see box II.1). The importance of ESG issues to long-term financial returns, as well as to society's broader objectives and long term benefit, are the central motivating factors of the PRI framework. The PRI provides a menu of possible actions for incorporating ESG issues into mainstream decision-making. The six principles of the PRI are voluntary and aspirational in nature, but are supported by clear disclosure requirements designed to encourage signatories to fulfil their commitments under the principles. The principles are not prescriptive, but allow a necessary degree of flexibility in incorporating ESG issues into investment decision-making and ownership practices.

Box II.1. The United Nations-backed Principles for Responsible Investment (PRI)

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, and asset classes and through time). We also recognize that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

Source: http://www.unpri.org/principles/.

b. Varied responses to responsible investment

Recognition of the materiality of ESG issues, and the rise of RI practices around the globe, is evidenced by the tremendous growth in signatories to the PRI. As of February 2010, the PRI had over 700 signatories with assets under management (AUM) of over $20 trillion. Despite strong investor support for ESG issues, best practice in RI is still evolving. While many asset owners, asset managers and professional service partners have subscribed to a standard, aspirational RI goal, evidence suggests that a diverse set of responses has resulted. Moreover, many of the world's largest asset owners are not yet signatories to the PRI. Given the varied and wide distribution of practical responses to the PRI (with the spectrum ranging from non-signatory and no ESG policy implementation to signatory and best practice implementation), it is timely to undertake a review of the world's 100 largest pension funds, using an international benchmark of best practice as represented by the six principles of the PRI.

c. Investment policy and responsible investment

The investment policy of the universal owner represents the core guiding purpose of its investment programme. Investment policy can be thought of as having multiple component parts including (a) purpose; (b) strategy; (c) rules; (d) values and standards; and, in some instances, (e) expectations of behaviour. Investment policy is important for a variety of reasons, including its ability to be used to assist in the prudent governance of the pension fund, and as a communication device. As such, the investment policy of a large pension fund facilitates communication to the internal audience, as well as to the external stakeholder audience.

The development of a pension fund's investment policy to incorporate ESG factors is an important component of how a pension fund builds RI practices into its investment process. As a result of events in the external environment, particularly the myriad of ESG factors that have arisen in recent years, many pension funds have made significant adjustments to their formal investment policies to incorporate these issues into their investment activities. As evidenced by examination of the world's largest pension funds, many funds considered in this study have created new departments, divisions or units to coordinate and lead their RI initiatives.

This chapter aims to assess a variety of issues. First, as part of this report's broader examination of enterprise policies on CSR, it is an attempt to analyse the role large institutional investors play in driving the development of CSR practices within the enterprises they invest in. Second, given the range of responses to RI among large institutional investors it is an attempt to determine the status of the world's largest pension funds vis-à-vis RI issues using the PRI as an international benchmark, to better understand the voluntary adoption of RI policies and practices.

B. Methodology

1. Sample studied

The top 100 largest pension funds in the world were extracted from Watson Wyatt's Pensions and Investments (P&I) list of the world's largest 300 pension funds (ranked by assets under management (AUM) in United States dollar terms).[32] The 100 selected pension funds are intended to serve as a proxy for global asset owners (see box II.2) and include both PRI signatories and non-signatories alike.

Table II.3 in section C provides a list of the 100 largest pension funds examined in this study. As of 26 January 2009, these funds had total assets of $8.6 trillion (or around 42 per cent of global pension assets). Given the magnitude of financial capital employed by these universal owners, the RI activities of the 100 largest pension funds provide a useful starting point to gauge the global development of RI activities.

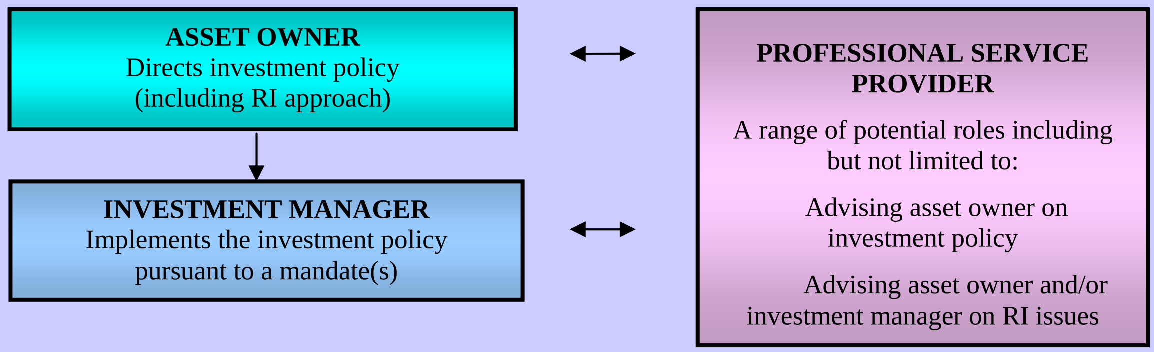
Twenty-two countries are the home countries for the pension funds in the sample. However, as seen in figure II.3, more than half of AUM value in the top 100 pension funds comes from just two countries: (a) Japan with seven pension funds worth $1,545,963 (United States millions) in aggregated AUM; and (b) the United States with 46 pension funds amounting to $3,582,818 (United States millions) in aggregated AUM. All of the funds are headquartered in developed countries.

Box II.2. Whom to examine and how?

In designing this study, it was necessary to decide which category of investment organization was the most appropriate to analyse in assessing global action on RI. The decisive factor proved to be the matter of investment policy: in particular, identifying the party with ultimate responsibility for deciding investment policy. Investment policy is defined here as the policy which, when approved by the fiduciary body, directs the investment activities of the organization in pursuit of its investment objectives. The following points summarize the reasoning for selecting "asset owners" as the most appropriate category for examination:

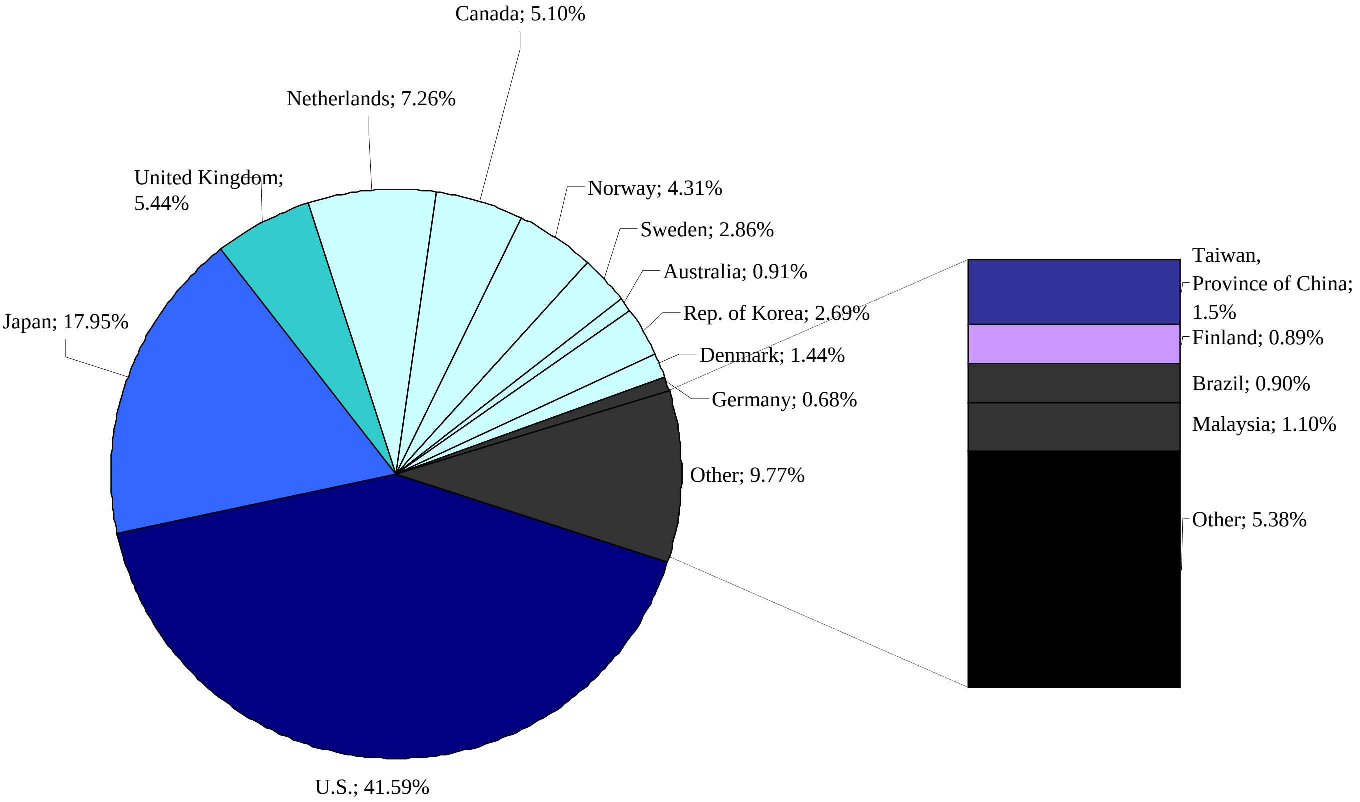
(a) It is critical to focus on the category of organizations which ultimately direct the investment policy for the assets, accepting that other parties may have some role in this process (e.g. asset consultants). Practically, it is during the consideration and approval of investment policy that fiduciaries take substantive action on RI issues. Without this action, the often independent RI initiatives of investment managers and professional service providers are neither valued by asset owners, nor effective in embedding RI principles within the investment industry.

(b) The PRI states that the asset owner category is "the principal category of signatory". This suggests that the PRI acknowledges that RI action only has true force when driven by those who have the ultimate fiduciary responsibility to beneficiaries. While investment managers and professional service providers can and do take tangible and proactive steps on RI matters, including guiding their clients (asset owners) to more active stances on ESG issues, their essential roles as agents and service providers, respectively, mean that any substantial action on RI issues is often a result of their client's preferences rather than their own initiative. Each party's role is summarized in the following diagram:



The PRI considers the following types of organizations as belonging to the asset owner category: pension funds, government reserve funds, foundations, endowments, insurance and reinsurance companies, and depository organizations. Preparation of the study therefore relied on obtaining a data set which reasonably represented this highly heterogeneous and non-exhaustive set of organizations. The P&I/Watson Wyatt World 300 list of the world's largest pension funds was selected as an independently-compiled and widely-accepted list of the world's largest asset owners.

Figure II.3. The assets by home country of the world's 100 largest pension funds
(Percentage of total of 100 funds)



Source: Watson Wyatt Worldwide (2009) and various secondary sources.

Due to the unequal home country weighting in the sample, this study did not test for home country effects on RI practices, but the possibility of such effects should be considered and possibly incorporated into future research on this subject.

The funds also include a mix of public sector bodies (e.g. California Public Employees' Retirement System (CalPERS)) and private sector bodies (e.g. Lockheed Martin employee pension fund). The sample was not designed for testing for the possible effects of such categories of ownership, but the possibility of such effects might also be considered and incorporated into future research on this subject.

2. Indicators of responsible investment

This study is designed to measure the implementation status of RI among the world's 100 largest pension funds, this is determined by examining the level of disclosure of RI practices within the sample. Thus, the analysis of the RI practices of these pension funds is based on the information that the funds themselves report to the general public.

An asset owner's action on RI is determined by comparing the public information of the fund against a benchmark of good practice. The benchmark in this case was derived from the PRI principles: For each of the six principles of the PRI, this study defines an indicator that can be clearly identified and observed from public information. The six principles, the related indicators, and the rationale for their selection are summarized in table II.2 below.

Table II.2. Benchmark indicators used to measure responsible investment via the PRI framework

<table>
<tr><th>PRI principles</th><th>UNCTAD RI indicators</th></tr>
<tr><td>PRI principle 1: We will incorporate ESG issues into investment analysis and decision making processes.</td><td>Indicator 1: ESG–related investment analysis in decision making processes</td></tr>
<tr><td colspan="2">Rationale: It is common for asset owners, particularly large ones, to disclose some information on investment governance (i.e. how fiduciaries exercise their investment duties, especially the setting of investment policy). It is reasonable to expect an asset owner to disclose its RI policy within broader disclosure on investment governance.</td></tr>
<tr><td>PRI principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.</td><td>Indicator 2: Ownership policy decisions related to ESG</td></tr>
<tr><td colspan="2">Rationale: Asset owners must implement their RI policies in order to be effective. This would include positively influencing investee companies through the appropriate exercise of voting rights to support the ESG objectives of the asset owner on behalf of its beneficiaries. It is reasonable to expect that, at a minimum, active ownership policy decisions would be available to the general public.</td></tr>
<tr><td>PRI principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.</td><td>Indicator 3: Demands for ESG disclosure from investee companies</td></tr>
<tr><td colspan="2">Rationale: An asset owner implementing RI practices would demand ESG issues to be disclosed by the enterprises in which they invest. Publicly available information on the dialogue between the pension fund and the managers of their investments on ESG disclosure would be an indicator of this.</td></tr>
<tr><td>PRI principle 4: We will promote acceptance and implementation of the principles within the investment industry.</td><td>Indicator 4: Signatory to the PRI</td></tr>
<tr><td colspan="2">Rationale: There are a number of ways in which asset owners can promote acceptance and the implementation of the PRI within the investment industry, but the most basic of these is becoming a signatory to the PRI itself. The PRI provides an important international touchstone for the development of global RI practices, as well as ongoing monitoring, review and assessment of these practices going forward.</td></tr>
<tr><td>PRI principle 5: We will work together to enhance our effectiveness in implementing the Principles.</td><td>Indicator 5: Promotes RI collaboration</td></tr>
<tr><td colspan="2">Rationale: This indicator measures whether collaboration between the various RI asset owners, institutions and organizations is being readily disclosed to the general</td></tr>
</table>

PRI principles	UNCTAD RI indicators
public. A PRI signatory would demonstrate this by promoting the PRI on their website or ensuring RI activities are included in their documentation that is available to the general public. A non-PRI signatory would demonstrate this by communicating its collaborative initiatives via public reporting. The rationale of this indicator is to measure whether this cooperation between RI entities is being readily communicated to the general public. Companies analysed that meet this criterion often disclose their RI promotion activities in such organizations as the International Corporate Governance Network (ICGN), the Enhanced Analytics Initiative (EAI), the Investor Network on Climate Risk (INCR), the Coalition for Environmental Responsible Economies (CERES), the Carbon Disclosure Project and the Council of Institutional Investors, to name a few. The purpose of these organizations is to develop new ESG standards through collaborative dialogue with other investors and market participants. Those pension funds that are not members of one or more of these organizations generally meet this criterion by enhancing and promoting RI through individual corporate activities.	
PRI Principle 6: We will each report on our activities and progress towards implementing the principles.	**Indicator 6: Annual report of RI activities**
Rationale: The purpose of an annual report is to convey information about the pension fund's approach (including RI activities) to beneficiaries and stakeholders. For PRI signatories, relevant activities would be expected to be contained in an annual report; for non-signatories, an annual report would also be the appropriate medium for communicating RI activities.	

3. Source of pension fund disclosure

Whether or not a fund disclosed the UNCTAD RI indicators identified above was determined by examining each fund's website and other publicly available information on the Internet. The Web-based content was reviewed between June 1 and August 15, 2009.

Advances in information infrastructure (particularly solutions via Web-enabled architecture that support the dissemination of financial information efficiently and cost effectively) have played a vital role in the ongoing development of capital markets. Websites facilitate an increased depth of engagement between funds and their members and provide important outreach to all stakeholders. The development of the Internet, and its role in heightening transparency, has been embraced by investors and regulators alike. The continued importance of the Internet in the efficient and effective functioning of the capital markets was recently confirmed by the United States Securities and Exchange Commission (SEC). The SEC's motivation to issue guidance on the use of company websites was "to encourage the continued development of company websites as a significant vehicle for the dissemination to investors of important company information".[33]

The sampled pension funds have invested considerable resources in their respective Internet communication strategies which encompass, among other things: (a) the mission statement, objectives and goals of the fund; and (b) in-depth coverage of topical issues relating to the fund (particularly in the areas of governance and return history). The majority of websites also have password-protected areas for members and stakeholders, allowing pension account balances to be obtained and other tasks to be performed. To their credit, high levels of transparency were observed in relation to traditional investment-related matters (e.g. investment returns, use of asset managers, and member-related information) among all of the funds in this study. Therefore, if a fund is engaged in RI practices, it is reasonable to expect disclosure of these activities alongside its other substantial public information.

Box II.3. Pension fund practice: The public reporting of environmental, social and governance issues in the investment process

In examining the world's 100 largest pension funds, it becomes clear that there are a variety of ways funds operationalize ESG issues. In order to illustrate fund practices, this report includes more detailed discussion of selected funds which provide good examples of disclosure on each of the RI indicators in this report. Refer to boxes II.4 – II.7 for discussion of each of the indicators tested as part of this study. (Note: there are no examples for Indicator 4 because the criterion is binary: there are no qualitative differences between funds which fulfil the criterion.) Best practice in the public reporting of RI issues includes the following characteristics:

- **Accessible** – Best practice pension funds have information on their approach to ESG issues that is easy to access via their website. This information is presented in the national language of the pension fund as well as an internationally used language to facilitate access by international stakeholders (e.g. ABP, The Government Pension Fund of Norway);
- **Clear policy position** – Each fund provides a clear and substantial ESG policy that goes beyond platitudes and general "feel–good statements. Matters such as "fiduciary responsibility", "obligations" and "accountability" are addressed explicitly; and
- **Comprehensive** – Best practice funds' public information is built on the disclosed policy by providing commentary regarding the fund's policy principles in action (e.g. specific approaches to corporate governance, executive compensation), and extensive and detailed activity reporting (e.g. investment holdings, voting records).

While many funds disclosed information about ESG issues in their investment processes, a select group stood out as having a more complete approach. These included CalSTRS, ABP and The Government Pension Fund of Norway. (See table II.3).

ABP, for example, has on its website an ESG menu selection under the heading "Investments" (along with other selections such as "Investment strategy" and "Risk management"). Under this selection, ABP outlines its long-term vision in relation to ESG issues, and there is a section entitled "ESG in practice", as well as details of ABP investments. From this relatively simple website, it is possible to find out about ABP's views on corporate governance, its exclusion policy, its specialized investments and its international collaboration activities. The reader is left with a clear view of how ABP addresses ESG issues in its investment process.

C. The responsible investment practices of the 100 largest pension funds

1. Overview of findings

The findings for each pension fund are presented in table II.3 below. It is important to note that the pension funds are ranked by size (AUM) and *not* by their RI disclosures. The RI disclosure practices of the funds can be determined from the gap analysis at the right hand side of the table: a shaded square shows the indicator was found among the public reports of the fund, while a blank square shows the indicator was not found.

An analysis of the main findings is presented in subsection C.2, while further analysis of the practices of PRI signatories is presented in subsection C.3.

Table II.3. Gap analysis of responsible investment practices of the 100 largest pension funds

Institutional Investor	**Region**	**Country**	**AUM ($millions)**	1.ESG related investment analysis in decision – making processes	2. Ownership policy decisions related to ESG	3. Demands for ESG disclosure from investee companies	4. Signatory to the PRI	5. Promotes RI collaboration	6. Annual report of RI activities
Government Pension Investment	Asia	Japan	$1,072,429	🟦		🟦	🟦	🟦	🟦
Government Pension	Europe	Norway	$370,985	🟦	🟦	🟦	🟦	🟦	🟦
ABP	Europe	Netherlands	$314,969	🟦	🟦	🟦	🟦	🟦	🟦
California Public Employees	North America	United States	$254,627	🟦	🟦	🟦	🟦	🟦	
National Pension[1]	Asia	Rep. of Korea	$231,966						
Federal Retirement Thrift	North America	United States	$223,338						
California State Teachers	North America	United States	$176,270	🟦	🟦	🟦	🟦	🟦	
New York State Common	North America	United States	$164,363	🟦	🟦			🟦	
Local Government Officials[2]	Asia	Japan	$144,447						
Florida State Board	North America	United States	$142,519	🟦	🟦	🟦		🟦	🟦
General Motors (Promark)	North America	United States	$133,835						
New York City Retirement (NYCERS)	North America	United States	$130,328				🟦		
Postal Savings Fund	Asia	Taiwan Province of China	$129,397						
PFZW	Europe	Netherlands	$128,615	🟦	🟦	🟦	🟦	🟦	
Canada Pension[3]	North America	Canada	$123,903	🟦	🟦	🟦	🟦	🟦	🟦
AT&T	North America	United States	$117,537						
Texas Teachers	North America	United States	$114,878	🟦	🟦				
Pension Fund Association[2]	Asia	Japan	$112,698	🟦	🟦				
Ontario Teachers	North America	Canada	$110,600	🟦	🟦	🟦		🟦	
New York State Teachers (NYSTRS)	North America	United States	$106,042	🟦	🟦		🟦		
GEPF	Africa	South Africa	$103,644						
Central Provident Fund Board	Asia	Singapore	$94,964	🟦					

Institutional Investor	**Region**	**Country**	**AUM ($millions)**	1.ESG related investment analysis in decision – making processes	2. Ownership policy decisions related to ESG	3. Demands for ESG disclosure from investee companies	4. Signatory to the PRI	5. Promotes RI collaboration	6. Annual report of RI activities
Employees Provident Fund	Asia	Malaysia	$94,659	🟦					
Wisconsin Investment Board	North America	United States	$91,615	🟦	🟦	🟦		🟦	
General Electric	North America	United States	$88,237						
IBM	North America	United States	$87,481						
Ohio Public Employees	North America	United States	$84,349	🟦	🟦	🟦			
ATP	Europe	Denmark	$84,097	🟦	🟦	🟦	🟦		
New Jersey	North America	United States	$83,968						
North Carolina	North America	United States	$82,437						
National Public Service[2]	Asia	Japan	$82,326						
Boeing	North America	United States	$81,079						
Ohio State Teachers	North America	United States	$78,606	🟦	🟦				
Previ	South America	Brazil	$77,616	🟦	🟦	🟦	🟦	🟦	
Verizon	North America	United States	$74,780						
BT Group (British Telecom)[3]	Europe	United Kingdom	$74,248	🟦	🟦	🟦	🟦	🟦	🟦
Washington State Board	North America	United States	$71,398						
National Social Security	Asia	China	$70,731						
Pennsylvania School Empl.	North America	United States	$68,678	🟦	🟦				
Michigan Retirement	North America	United States	$67,834						
Alecta	Europe	Sweden	$66,841	🟦	🟦	🟦		🟦	
Ontario Municipal Employees	North America	Canada	$66,810	🟦	🟦	🟦		🟦	
Oregon Public Employees Ret. Sys	North America	United States	$66,635	🟦	🟦	🟦		🟦	
Fondo de Reserva Seguridad	Europe	Spain	$66,504						
Public Schools Employees[2]	Asia	Japan	$63,697						

Institutional Investor	**Region**	**Country**	**AUM ($millions)**	1.ESG related investment analysis in decision – making processes	2. Ownership policy decisions related to ESG	3. Demands for ESG disclosure from investee companies	4. Signatory to the PRI	5. Promotes RI collaboration	6. Annual report of RI activities
Virginia Retirement	North America	United States	$60,686						
University of California	North America	United States	$59,573						
Bayerische Versorgungskammer	Europe	Germany	$58,621	🟦					
Universities Superannuation [3]	Europe	United Kingdom	$57,693	🟦	🟦	🟦	🟦	🟦	🟦
Ford Motor Company	North America	United States	$57,517						
Royal Dutch Shell[4]	Europe	Netherlands	$57,363	🟦	🟦			🟦	
Hospitals of Ontario	North America	Canada	$55,671	🟦					
Minnesota State Board	North America	United States	$54,973						
Royal Bank of Scotland Group[5]	Europe	United Kingdom	$54,845						
Georgia Teachers	North America	United States	$54,209						
British Coal Pension Schemes[1]	Europe	United Kingdom	$53,807						
Metaal/tech. Bedrijven	Europe	Netherlands	$52,945	🟦					
Massachusetts PRIM	North America	United States	$52,712						
Lockheed Martin	North America	United States	$51,436						
FRR	Europe	France	$49,973	🟦	🟦		🟦	🟦	
Alcatel-Lucent	North America	United States	$48,498					🟦	
Royal Mail[6]	Europe	United Kingdom	$47,432						
Quebec Government & Public	North America	Canada	$46,839	🟦		🟦		🟦	
AMF Pension	Europe	Sweden	$45,645	🟦	🟦			🟦	
Electricity Supply Pension	Europe	United Kingdom	$44,936						
Future Fund[7]	Australia	Australia	$44,354						
Colorado Employees	North America	United States	$43,257						
Employees' Provident[2]	Asia	India	$43,116						

Institutional Investor	Region	Country	AUM ($millions)	1.ESG related investment analysis in decision – making processes	2. Ownership policy decisions related to ESG	3. Demands for ESG disclosure from investee companies	4. Signatory to the PRI	5. Promotes RI collaboration	6. Annual report of RI activities
Illinois Teachers	North America	United States	$42,311						
Los Angeles County Empl.(LACERA)	North America	United States	$41,528	🟦			🟦		
Varma	Europe	Finland	$41,442	🟦					
United Nations Joint Staff	North America	United States	$41,278	🟦		🟦	🟦	🟦	
Maryland State Retirement	North America	United States	$40,108	🟦	🟦		🟦	🟦	
PFA Pension	Europe	Denmark	$40,040	🟦	🟦	🟦	🟦	🟦	
Organization for Workers[2]	Asia	Japan	$39,299						
Bouwnijverheid	Europe	Netherlands	$38,600	🟦	🟦	🟦		🟦	🟦
Railways Pensions	Europe	United Kingdom	$37,711						
Northrop Grumman	North America	United States	$37,564						
Pennsylvania Employees	North America	United States	$37,318						
Quebec Pension[1]	North America	Canada	$35,381	🟦				🟦	🟦
Local Government Pensions	Europe	Finland	$35,278	🟦			🟦		
Bank of America	North America	United States	$35,000						
AP Fonden 3	Europe	Sweden	$34,765	🟦	🟦	🟦	🟦	🟦	🟦
AP Fonden 2	Europe	Sweden	$34,503	🟦	🟦	🟦	🟦	🟦	🟦
Exxon Mobil	North America	United States	$34,400						
Tennessee Consolidated	North America	United States	$34,393						
AFP Provida	South America	Chile	$34,172						
Barclays Bank United Kingdom	Europe	United Kingdom	$34,164						
State Super	Australia	Australia	$34,137						
Chrysler	North America	United States	$33,760						
AP Fonden 1	Europe	Sweden	$33,423	🟦	🟦	🟦	🟦	🟦	🟦

Institutional Investor	**Region**	**Country**	**AUM ($millions)**	1.ESG related investment analysis in decision – making processes	2. Ownership policy decisions related to ESG	3. Demands for ESG disclosure from investee companies	4. Signatory to the PRI	5. Promotes RI collaboration	6. Annual report of RI activities
Alabama Retirement	North America	United States	$33,294						
United Technologies	North America	United States	$32,880						
National Railroad	North America	United States	$32,689						
PME	Europe	Netherlands	$32,659	🟦	🟦	🟦	🟦		
Teamsters, Western Conf.	North America	United States	$32,600						
Lloyds TSB Group	Europe	United Kingdom	$31,945						
BP	Europe	United Kingdom	$31,621				🟦		
AP Fonden 4	Europe	Sweden	$31,562	🟦	🟦	🟦	🟦	🟦	🟦
Private Schools Employees[2]	Asia	Japan	$31,067						

Source: UNCTAD, based on data from Griffith Business School. Total assets as at 31 December 2008 by Pensions & Investments/Watson Wyatt Worldwide (2009).

Note: [1]Estimate; [2]March 31, 2007; [3]March 31, 2008; [4]Global figure (ex-United States); [5]Global figure; [6]March 30, 2008; [7]Jan. 31, 2008.

2. Analysis of main findings

Almost half of the world's 100 largest pension funds are disclosing at least one or more of the six UNCTAD RI indicators (see figure II.4).This is a significant sign pointing to the increasingly widespread nature of the concept of RI. Nevertheless, one of the more striking results in Figure II.4, is that no evidence of RI practices could be found for just over half of the sample (51 of 100 funds), a group accounting for 39 per cent, (or $3.4 trillion), of the total, $8.6 trillion assets of the 100 largest funds (see figure II.6).

It is important to note, however, that while the number of funds adopting RI practices is an indication of the *scope of implementation* of RI, it is the amount of funds under management that determines the *level of influence* of RI. And here the findings are significant: while only 27 funds disclosed four or more of the RI indicators, these 27 funds accounted for 42 per cent, or $3.7 trillion, of the total assets of the top 100 funds (see Figure II.6).

Figure II.4. Responsible investment practices and number of funds
(Number of pension funds, max. = 100)

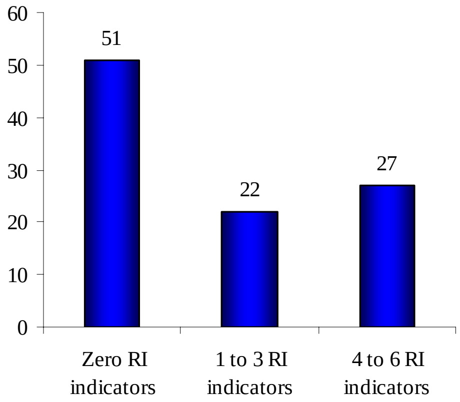


Figure II.5. Responsible investment practices and average assets per fund
(Billions of $)

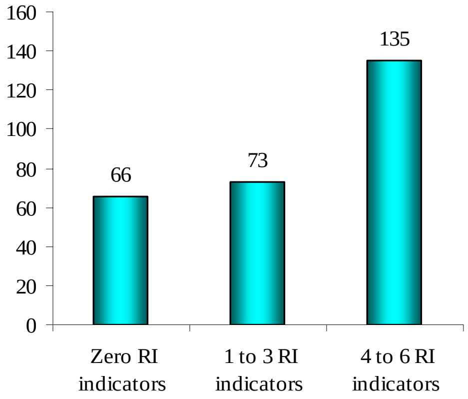
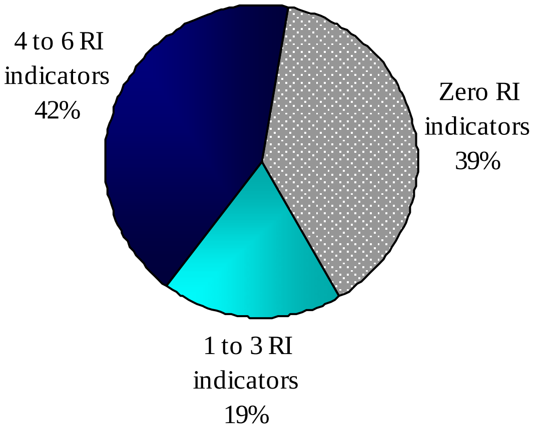


Figure II.6. Responsible investment practices by assets
(Percent of total assets of 100 largest funds)



Source Fig II.4, II5 and II.6: UNCTAD, based on data from Griffith Business School.

Indeed, as indicated in figure II.6 above, the largest proportion of AUM is held by funds indicating at least some RI activities, with the single largest portion attributed to the group of funds reporting 4 or more of the RI indicators.

Furthermore in terms of assets under management (see figure II.5 above) it is clear that larger funds tend, on average, to be the early and more active adopters of RI practices. To the extent that these larger funds are trendsetters for their industry, this finding may indicate a trend toward much wider adoption of RI practices in the future.

Box II.4. Pension fund practice: Public reporting of active ownership

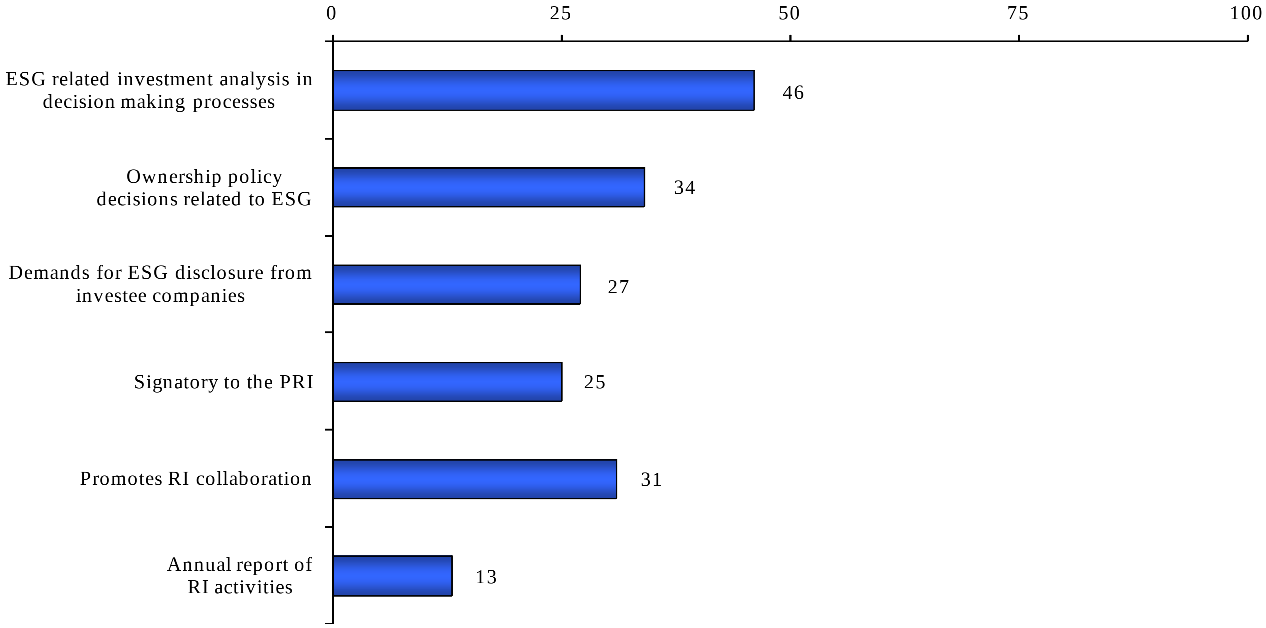
In order to influence the ESG debate amongst companies, institutional investors need to clearly convey their expectations as the ultimate asset owners. This is achieved via "active ownership", a label used to describe the active participation by investors in influencing the direction of investee companies.

The central challenge in reporting on active ownership is the magnitude of the task. Typical institutional investors own interests in hundreds, if not thousands, of companies, making prompt and accurate reporting on voting activities a significant challenge, particularly if such interests are held indirectly through investment managers and/or a fund of funds.

One fund that excels in active ownership reporting, and our exemplar for Indicator 2, is the Canadian Pension Plan (CPP) Investment Board. With the assistance of ISS Governance Services (a division of RiskMetrics Group), CPP Investment Board makes available via its website a searchable database of its proxy voting activity, which is implemented by ISS according to CPP's voting guidelines. The database is searchable by both company name and meeting date, with an alphabetical list by company also available. The detail provided within each company meeting entry is significant: meeting date, meeting type, all meeting resolutions, management recommendations and CPP's votes are all disclosed.

Figure II.7 examines pension fund practices by individual indicators of RI. One of the main findings is that nearly half of the world's 100 largest pension funds report that they are incorporating ESG issues into their investment processes.

Figure II.7. Responsible investment practices by individual indicators
(Number of pension funds, max. = 100)



Source: UNCTAD, based on data from Griffith Business School.

Approximately a third of the funds are reporting ownership policy decisions related to ESG and are promoting RI practices and collaboration within the investment industry and a quarter of the world's 100 largest pension funds have signed up to the PRI. These findings suggest that commitment to RI practices among large institutional investors has become common. The least found indicator of RI among the sample group was the indicator on annual reporting. Only 13 of the 100 funds had an explicit annual report on RI practices. Even among PRI signatories, who are committed to such reporting, there are relatively low levels of reporting (see subsection C.3 below). This finding may result from the relative novelty of RI activities. Although many of these activities have already become commonplace among large institutional investors, reporting on these activities is clearly lagging. For its part, the PRI has strengthened the obligation of its signatories to report on their practices, and has begun to delist signatories that fail to report. In general, however, it can be expected that reporting practices typically lag policy practices, as there can often be a year or two between introducing a new policy and having a robust reporting system in place.

Box II.5. Pension fund practice: Public reporting of environmental, social and governance information demanded from the entities they invest in

Under the PRI, it is not sufficient to engage with companies. Signatories are expected to promote the management of ESG issues at companies and to be transparent regarding the standards that are applied and the processes they undertake. Engagement undertaken without robust processes and resourcing is unlikely to be effective.

Among the funds examined, investors were observed to disclose the ESG information demanded of companies in a number of ways. The following three examples of good practice pursue approaches which are slightly different in style but very similar in substance:

- **CalPERS** – publishes a "reform focus list" that discloses the companies with which it is actively engaging in an effort to improve aspects of their operations. This list can be found on CalPERS' corporate governance website, where fact sheets on "reform focus list" companies can also be found. Fact sheets disclose key company details, CalPERS's concerns, any action the company has agreed to take, and shareholder proposals that CalPERS is either proposing or supporting.

- **AP Fonden** – The first four AP Funds (AP1, AP2, AP3 and AP4) jointly collaborate on a so-called "Ethical Council" which produces a comprehensive annual report on its activities, in particular its engagement with certain companies. In this report, details of companies being monitored are provided including a description of the incident prompting heightened monitoring, the objective of the engagement, and progress against the objective. Apart from company-specific detail, the Ethical Council outlines its five-step approach to engagement, other process matters and topical commentary about ESG issues.

- **ABP** – publishes its *Responsible Investment Report* in which it outlines its expectations of investee companies and lists those companies with which specific issues have been raised. The information disclosed includes the company's name, its domicile, its sector and the issue(s) which are the subject of concern.

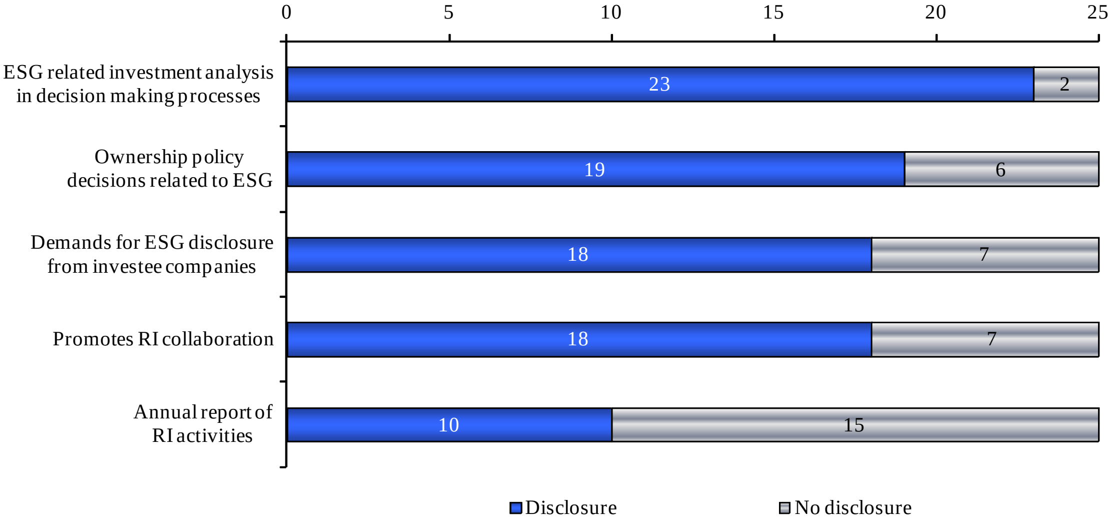
From this public reporting, it is clear that these three examples each have expectations of the companies in which they invest, they each actively engage with a subset of these investee companies, and they publicly disclose these activities in an easily accessible and readable way.

3. The practices of PRI signatories

One quarter of the 100 pension funds are PRI signatories, controlling 40 per cent of this sample's total AUM. Given these funds have made an explicit public commitment to the six principles of the PRI, they would therefore be expected to display strong adherence to the UNCTAD RI indicators developed for this analysis. Figure II.8 shows the results for the 25 PRI signatories only.

Figure II.8. PRI signatories only, by individual indicators

(Number of pension funds, max. = 25)



Source: UNCTAD, based on data from Griffith Business School.

A majority of the 25 PRI signatories are disclosing each of the UNCTAD RI indicators, except for the indicator on annual reporting. As with the full sample, annual reporting remains the lagging indicator, though it is noteworthy that of the 13 funds producing an annual report on RI practices, 10 of those funds were PRI signatories. So while not all PRI signatories are yet producing public RI reports, those funds that do are overwhelmingly PRI signatories. Indeed, PRI signatories make up between half and three quarters of the pension funds reporting on each of the five non-PRI-specific RI indicators.

Figure II.9 provides a breakdown of each RI indicator by PRI status. While not all 25 PRI signatories are meeting each of the RI indicators, they do represent half or more than half of the pension funds disclosing on each indicator.

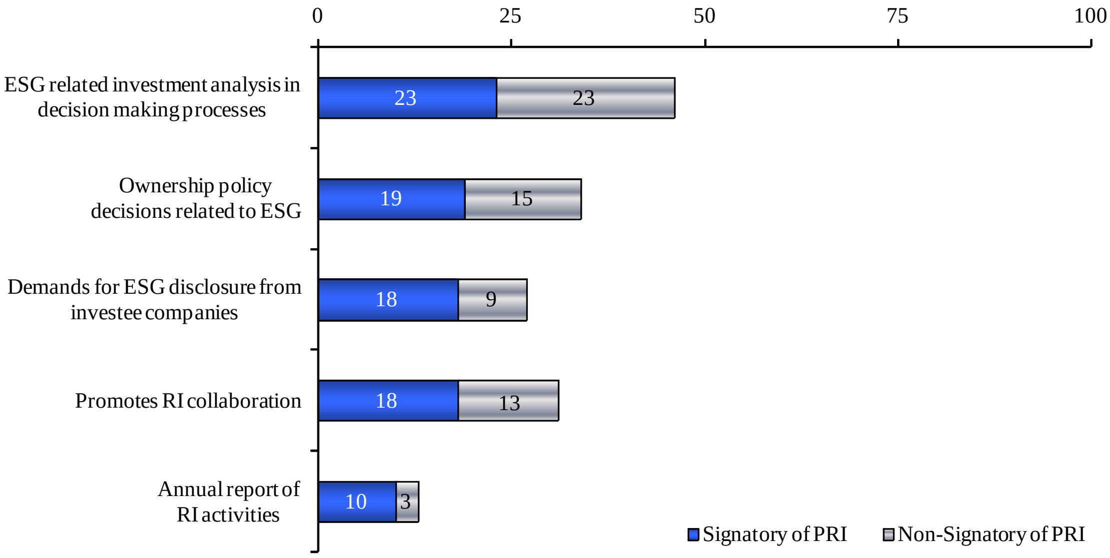
Box II.6. Pension fund practice: Entity enhances/promotes responsible investment collaboration

Those funds which performed well according to this criterion are those that performed well across all six criteria. Exemplars for this indicator are USS and BT-Hermes of the United Kingdom, and ABP of the Netherlands. Each of these funds disclosed significant information promoting RI and RI collaboration to the general public. Common themes include:

- Excellent disclosure via their website and/or annual report;
- Mention of involvement with (and often website links to) the United Nations PRI and other RI-related entities, for example, the Institutional Investor Group on Climate Change, Enhanced Analytics Initiative, etc.; and
- Generally some explicit leadership (e.g. founder/ co-founder) of, or close involvement with, one or more of these RI-related organizations.

Figure II.9. Practice of PRI signatories by individual indicators

(Number of pension funds, max. = 100)



Source: UNCTAD, based on data from Griffith Business School.

Not only do PRI signatories represent at least half of the funds disclosing each item, the relative proportion of PRI signatories disclosing on each of the RI indicators is also much–higher than the proportion of non-signatories. For the indicator “Ownership policy decisions related to ESG”, for example, 19 of 25 (i.e. 76 per cent) of the PRI signatories in the sample provide this information to the general public. However, in the case of non-signatories, only 15 of 75 (i.e. 20 per cent) of the pension funds provided this information. Likewise, regarding the indicator “Demands for ESG disclosure from investee companies”, 18 of the 25 PRI signatories (i.e. 72 per cent) meet this indicator, while only 9 of the 75 non-signatories (i.e. 12 per cent) meet the same criterion. These results show that, while some individual PRI signatories do not yet appear to be meeting each of the six principles, the PRI signatories as a group do tend to demonstrate greater engagement with RI practices than their non-PRI peers.

Box II.7. Pension fund practice: Entity provides a responsible investment annual report

Once again, funds which have appeared as exemplars for earlier criteria perform strongly here. The most impressive annual RI reports belong to ABP of the Netherlands and AP Fonden of Sweden. Each produces extremely detailed reports (44 and 24 pages respectively) which clearly set out to provide the reader with a comprehensive summary of each fund's approach to RI. There is no need to refer to other sources to get background information or context. Each report has a number of sections which together cover the following:

- RI processes;
- Corporate governance;
- Engagement practices and commentary;
- Discussion about sustainability-driven investments (where appropriate);
- Key themes being targeted (e.g. cluster munitions); and
- Cooperation and engagement.

D. Reflections on findings and recommendations

RI practices have become common, if not fully developed, features of the 100 largest pension funds globally. About half the funds studied displayed some RI activity, and more than half of the assets managed in the sample were held by funds engaged in RI practices. Large leading funds are more active in the area of RI and appear to be actively engaged in the mainstreaming of ESG issues.

The PRI, despite its relatively recent introduction in 2006, has already become a widely supported initiative, counting among its signatories one quarter of the world's 100 largest funds. These PRI signatory funds tend to be larger than the average of the 100 funds, with 40 per cent of the total assets of the group. They are also far more engaged in RI activities than most of the other funds in the sample.

This study was based on the reporting practices of large pension funds. The potential difficulties that can arise from a lack of transparency in economic transactions due to an imbalance in information between the parties contracting, termed information asymmetry, can be so acute that the resultant outcome is market failure.[34] The role of transparency as a mitigator to the problem of information asymmetry can hardly be overstated.[35] This is particularly the case in global capital markets, where investors insist upon clear, relevant and timely financial information.

However, the challenge facing RI implementation is more than simply the transparency of financial information and continuous disclosure of accounting data. At its very foundation, RI acknowledges the importance of non-financial factors (especially ESG issues) in the establishment of more stable and sustainable global markets. The transparency (or otherwise) of RI practices is paramount in not only minimizing imbalances between contracting parties, but in ensuring the sustainable development of global markets.

The global financial crisis has had a myriad of impacts on the international economy and the financial architecture which supports it. The list of the world's largest asset owners considered in this study, and their contributors, have been exposed to the most significant drop in asset prices in generations, as well as, in some instances, exposure to fraud and white collar crimes (such as Ponzi schemes). This has sparked a critically important period of reflection for fiduciary boards and regulators alike, and presents an opportunity to instill ESG issues and RI practices in future policy development. The question before both investors and regulators is: What role can institutional investors play in strengthening market stability and promoting sustainable development?

This chapter demonstrates that commitment to RI practices is now commonplace. Yet, as noted above, the data identify two different and distinct groups of funds based on the current level of implementation of RI practices. Half the funds report no RI activity and the other half report at least some activity. One policy recommendation, therefore, given the emergence of these two groups, is that all institutional investors be encouraged to formally articulate their stance on RI to all stakeholders. Such disclosure would be in line with the current disclosure practices of funds in other areas; the fiduciaries of pension funds globally are already required to express their preferences on a range of (sometimes controversial) investment issues, such as static versus tactical approaches to asset allocation or active versus passive philosophies on asset selection.

As some form of RI is becoming increasingly commonplace amongst institutional investors around the world, there is a corresponding increase in the level of investor pressure on companies to improve their ESG practices. However, as discussed above and in chapter I, there is a lack of coherence and consistency and thus comparability across investee companies. To address this situation, policymakers can consider actions that improve the accountability of enterprises to their shareholders, as well as improving the accountability of institutional investors to their beneficiaries.

A number of corporate governance policy mechanisms could be employed in this regard, from disclosure requirements to the ability of shareholders to have (binding or non-binding) votes on company sustainability strategies. Empowering shareholders in this way provides a market mechanism for increasing the accountability of companies and oversight into their ESG practices.

Similarly, the disclosure rules that apply to institutional investors could usefully include requirements to disclose the approach of the fund on ESG issues within its portfolio of investee companies. Beneficiaries should be informed of these policies, and be provided with appropriate feedback mechanisms on such policies.

In the same way, the promotion of CSR practices among companies opens a new policy dimension for governments, and so does the promotion of RI practices among large institutional investors. The objective of policy in this space would be to promote the improved alignment of interests within the entire investment chain around long term sustainable development goals.

Endnotes

[26] The source of fund data used extensively in this study is the *Pensions & Investments/Watson Wyatt World 100: The Largest Pension Funds 2009*. This source includes pension funds as well as buffer funds (e.g. Sweden's AP Fonden) and sovereign wealth funds (e.g. Australia's Future Fund). The term "pension fund" is used loosely throughout to describe major institutional investors.

[27] Reuters (2009). "Norway oil fund surges, owns 1 pct global stocks", 14 August 2009, available at http://www.reuters.com/article/idUSLE34057520090814.

[28] All figures from Watson Wyatt Worldwide (2009).

[29] Hawley JP and Williams AT (2000). *The Rise of Fiduciary Capitalism: How institutional investors can make corporate America more democratic*. Philadelphia, PA, United States: University of Pennsylvania Press.

[30] See UNEP Finance Initiative (2005). "A legal framework for the integration of environmental, social and governance issues into institutional investment". www.unepfi.org/fileadmin/documents/freshfields_legal_resp_20051123.pdf. See also UNEP Finance Initiative (2009). "Fiduciary responsibility: Legal and practical aspects of integrating environmental, social and governance issues into institutional investment". www.unepfi.org/fileadmin/documents/fiduciaryII.pdf.

[31] Monks R (2001). *The New Global Investors: How shareowners can unlock sustainable prosperity worldwide*. Oxford, United Kingdom: Capstone Publishing Limited.

[32] This study uses the P&I/ Watson Wyatt list of January 2009.

[33] Securities and Exchange Commission (2008). *Commission Guidance on the Use of Company Web Sites, 17 CFR Parts 241 and 271*. [Release Nos. 34-58288, IC-58351; File No. S7-23-08]. Available at: http://www.sec.gov/rules/interp/2008/34-58288.pdf.

[34] In 2001, the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel was awarded to George Akerlof, Michael Spence, and Joseph E. Stiglitz for their analyses of markets with asymmetric information.

[35] The seminal contributions relating to the economics of information, particularly screening and signalling are contributed by Akerlof and Spence. In addition to his many seminal contributions on the topic of asymmetric information, Stiglitz (2000) has also contributed an excellent survey paper on the topic. Akerlof GA (1970). "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism". *Quarterly Journal of Economics* 84 (3), 488–500, Spence, Michael (1973). "Job Market Signaling", *Quarterly Journal of Economics* 87 (3), 355–374. Stiglitz JE (2000). "The Contributions of the Economics of Information to Twentieth Century Economics". *Quarterly Journal of Economics*, 115(4), 1441–1478.

CHAPTER III: THE LARGEST TRANSNATIONAL CORPORATIONS AND CLIMATE CHANGE–RELATED DISCLOSURE

A. Introduction

As shown in chapter I, environmental issues are recognized as an important feature of corporate responsibility. Among the range of environmental issues that companies and communities face, reducing climate change-related emissions has been identified by the countries of the world as a particularly urgent goal.

In the face of growing international awareness of the potential impacts of climate change and increasing pressure and urgency to reach a global consensus on adaptation and mitigation measures, environmental reporting takes on a renewed sense of practical importance. Implementing any future agreements on climate change mitigation e.g. emission controls, and gauging progress in this area, will require high-quality reporting practices.

Following on from chapters I and II, this chapter provides a deeper analysis and overview of current environmental reporting practices adopted by the world's 100 largest TNCs. It focuses on corporate reporting related to environmental issues generally and climate change issues more specifically.[36] This reflects a specific aspect of TNC CSR practices, as well as an important area of interest for large investors.

The findings show that a large majority of the TNCs are disclosing information on environmental performance and climate change issues. At least *some* information related to environmental issues is reported by 98 of the 100 TNCs, with 87 of the enterprises providing explicit data on greenhouse gas (GHG) emissions. Distinct policies on GHG emissions are disclosed by 75 of the enterprises, 73 make use of the ISO 14000 environmental management system and 69 of the companies have board level responsibility for environmental performance.

The overall picture that emerges from the research is that, while questions about the quality and consistency of reporting remain, the world's 100 largest TNCs have already begun to adopt a range of voluntary practices to address issues of climate change and make related information available in their public reports.

B. Status of TNC disclosures on climate change

1. Background and methodology

Table III.1 shows the 11 disclosure items which were selected as a benchmark to gauge the reporting practices of TNCs in environmental performance and climate change. These items were selected from among the existing range of international, industry, and civil society standards, practices and guidance tools. This is intended to be a representative sample of mainstream tools and practices.[37]

Table III.1. Selected climate change disclosure items by category

Policy, management and governance
Policy on greenhouse gas (GHG) emissions
ISO 14000 certification[38]
GHG emissions reduction targets
Board level responsibility for environmental performance
Climate change risk assessment (impact of climate change on the reporting entity)
Offsets through Clean Development Mechanism (CDM) & Joint Implementation (JI) - Kyoto Protocol
Performance measurement
GHG emissions data
Country specific GHG emission data
Reporting framework and assurance
External assurance statement for environmental reporting
Reference to the Carbon Disclosure Project (CDP)
Reference to the GHG Protocol Corporate Standard[39]

2. Sample studied

The world's 100 largest non-financial corporations (as ranked by foreign assets) were extracted from UNCTAD's *World Investment Report 2008*.[40] These corporations originate from a range of home countries and sectors (see annex I.2 and I.3); however, more than half come from just six sectors: Motor vehicles (13 companies); Petroleum, expl./ref./distr. (10); Electrical and electronic equipment (9); Telecommunications (8); Pharmaceuticals (6); and Electricity, gas and water (5). Due to the unequal sector weighting in the sample, this study did not test for sector effects on disclosure practices, but the possibility of such effects should be considered and possibly incorporated into future research on this subject.

Twenty different countries are the home countries for the TNCs in the sample; however, more than half come from just three countries: France (16 companies); the United Kingdom (15); and the United States (21). Over 90 of the TNCs have developed countries as home countries. Due to the unequal home country weighting in the sample, this study did not test for home country effects on disclosure practices, but the possibility of such effects should be considered and possibly incorporated into future research on this subject.

As outlined in chapter I, selecting the world's largest TNCs for analysis allows for a better understanding of the way in which global issues (e.g. climate change) are addressed by global corporations. TNCs are also prime actors in the transmission of new business practices across borders. Examining the disclosure practices of TNCs, therefore, can provide not only a better understanding of what leading large companies are doing today, but also a suggestion of what may emerge in the near future as standard business practice around the world.

3. Research questions and sources of information

The primary research question applied to the sample TNCs was: *How many of the selected climate change related disclosures are reported by each enterprise?* To answer this question, the study examined a range of publicly available corporate reports including annual reports, environmental reports and other information available from company websites.[41] These company reports were then compared with the 11 selected disclosure items to gauge what information on climate change related issues enterprises were disclosing. Additional research questions applied to the sample include: the location of sustainability information in corporate reports and the use of Greenhouse Gas Protocol's Scopes 1, 2, and 3.[42]

It should be noted that this study makes no indication of the quality of disclosure found among the enterprises. It asks only whether or not some information is reported on each of the disclosure items listed below. Thus, the analysis is limited to an examination of the *existence* of corporate reporting on certain topics, and not an examination of the *quality* of corporate reporting or the performance of TNCs on reducing climate change emissions.

In total, the review considered more than 1,100 individual data points. This is comprised of the eleven disclosure items explained above, multiplied by the 100 TNCs that make up the sample.

The main findings are presented in section C below. Section D presents a detailed analysis of reporting practices by category, along with additional data from secondary research questions.

C. Disclosure practices of the 100 largest TNCs: Overview of findings

Table III.2 below displays the results of the study, giving the number of enterprises disclosing each item. The information is presented within each of the three categories discussed in table III.1 above. This grouping of the disclosure items allows readers to draw their own conclusions based on the importance they assign to a particular category and, within that category, a particular disclosure item. Within each category, the disclosure items are presented in order from most often disclosed to least often disclosed. It is again noted that the findings make no indication of the quality of disclosure found among the enterprises, only whether or not some disclosure exists for each of the disclosure items listed below.

A significant finding is that 87 of the 100 TNCs provide at least some data on GHG emissions. More than two thirds indicate use of the ISO 14000 environmental management system for part or all of their operations and more than two thirds have assigned responsibility for environmental performance at the level of the board of directors. Taken together, the results indicate substantial adoption among TNCs of voluntary reporting practices on climate change related emissions.

Table III.2. Information disclosed by world's 100 largest TNCs

(Number of enterprises disclosing this item)

Disclosure items by category	**No. of enterprises (max = 100)**
Policy, management and governance	
Policy on GHG emissions	75
ISO 14000 certification	73
GHG emissions reduction targets	69
Board level responsibility for environmental performance	69
Climate change risk assessment (impact of climate change on the reporting entity)	40
Offsets through CDM & JI - Kyoto Protocol	19
Performance measurement	
GHG emissions data	87
Country specific GHG emission data	21
Reporting framework and assurance	
External assurance statement for environmental reporting	49
Reference to the CDP	28
Reference to the GHG Protocol	25

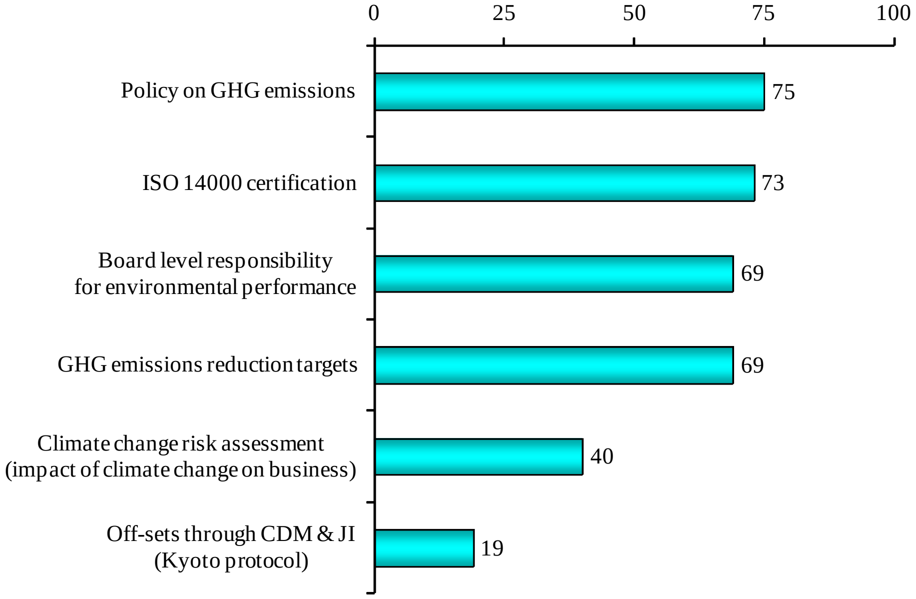
Source: UNCTAD, based on data from Ernst & Young.

D. Disclosure practices by category

1. Policy, management and governance

This category covers general policies on GHG emissions, disclosure on environmental management systems, tools or mechanisms (e.g. ISO 14000, risk assessments, reduction targets, use of offset mechanisms such as CDM and JI), and the disclosure of board responsibilities for environmental performance. The disclosure rates for each of the selected disclosure items in this category are depicted in figure III.1 below.

Figure III.1. Number of enterprises disclosing climate change related information on policy, management and governance



Source: UNCTAD, based on data from Ernst & Young.

One of the most common disclosure items in this category was a policy statement on GHG emissions. Three quarters of the companies disclose this information. Such disclosures vary from a general policy statement on the role of the organization with regards to climate change, to a more detailed policy statement that provides information on how the organization will move forward to reduce the carbon footprint. More detailed policy statements are often combined with long term GHG emission reduction targets. Such targets are also the subject of disclosure for a significant majority of firms (69).

Also widely reported on among the TNCs studied was a reference to the use of the ISO 14000 environmental management system standard. Over 70 of the TNCs indicated the use of ISO 14000 for all or part of their operations. While ISO 14000 does not indicate any absolute level of environmental performance, it does indicate a high quality management system that allows enterprises to identify the sources and quantity of emissions, and on the basis of this, take corrective action.

The disclosures on board level responsibility for environmental performance and climate change issues vary from company to company. Information reported on this topic ranges from a general acknowledgement of responsibility by the board stated in the company’s annual report, to the identification of a designated board member who is explicitly responsible for sustainability issues and the risks associated with climate change. In some cases, the disclosure identifies a special board committee that is responsible for environmental issues. As the board is the primary interface between investors and management, the disclosure of responsibility at the level of the board of directors provides important information for investors concerned with climate change issues. The fact that a clear majority of the enterprises in the study have board level responsibility for environmental issues is an indication of the relevance of topics such as climate change for the long term sustainability of the firm, as well as the materiality of such topics for a growing number of investors.

The reporting of a climate change risk assessment by companies is less widespread, but not uncommon (40 of the100 TNCs). This disclosure item may become more widespread in the future as the large number of companies with policy statements on GHG emissions move to the additional step of preparing a risk assessment: all companies with a risk assessment also have a policy statement, but not all companies with a policy statement have a risk assessment, which suggests a certain logical sequence between the two items. New voluntary and legislated initiatives may also increase the number of enterprises for whom climate change is a material issue, and thus drive increased disclosure of associated risk assessments.

Where companies do disclose a climate change risk assessment, the format of disclosure and the amount of information on this topic varies considerably. Such inconsistencies stem in part from the degree of comprehensiveness of a company's risk assessment. Inconsistencies may also reflect the absence of a commonly adopted and standardized climate change risk assessment tool. Though this study does not test for industry-specific effects on this disclosure item, it seems likely that variations in risk assessments may also be related to the industry in which the company operates (which can have different levels of risk exposure to climate change issues). To illustrate current company practices, box III.1 below contains a selection of excerpts from company reports on climate change risk assessment.

The Clean Development Mechanism and Joint Implementation are both arrangements under the Kyoto Protocol, which allow Kyoto Protocol countries with a GHG reduction commitment to invest in projects that reduce emissions in developing, emerging or other Kyoto Party countries as an alternative to more expensive emission reductions in their own countries. Disclosure by TNCs on involvement in offset projects or the purchase of Kyoto approved offsets is typically qualitative in nature (e.g. business case studies on particular projects); quantitative performance data on offset projects and purchases is less common.[43]

Box III.1. Company practice: Climate change risk assessments in corporate reports (selected excerpts)

Climate change, climate change regulations and greenhouse effects may adversely impact Alcoa's operations and markets. Alcoa (Extraordinary times, extraordinary measures - Taking decisive action through the downturn, 2008 Annual Report and Form 10-K, p. 32).

There is growing recognition that energy consumption is a contributor to global warming, greenhouse effects and potentially climate change. A number of governments or governmental bodies have introduced or are contemplating regulatory change in response to the potential impacts of climate change. There is also current and emerging regulation, such as the mandatory renewable energy target in Australia, or potential carbon trading regimes that will affect energy prices. Alcoa will likely see changes in the margins of greenhouse gas-intensive assets and energy-intensive assets as a result of regulatory impacts in the countries in which the company operates. These regulatory mechanisms may be either voluntary or legislated and may impact Alcoa's operations directly or indirectly through customers. Inconsistency of regulations may also change the attractiveness of the locations of some of the company's assets.

Climate Change Risk BHP Billiton (Resourcing the Future – Sustainability Report 2008, p. 95).

Our businesses assess the potential impacts of climate change through our Enterprise-wide Risk Management process. The potential physical impacts of climate change on our operations are highly uncertain and will be particular to the geographic circumstances. These may include changes in rainfall patterns, water shortages, changing sea levels, changing storm patterns and intensities, and changing temperature levels. These effects may adversely impact the cost, production and financial performance of our operations.

Physical risks Xstrata (Sustainability Report 2008, p. 59).

It is anticipated that weather patterns will be affected by climate change, which may pose a risk to Xstrata operations. For example, a study completed in 2007 indicated that climate change could increase the frequency, length and severity of droughts, resulting in potential water shortages with a consequent impact on our operations in arid areas. (…) The transport networks we use will come under increasing pressure if extreme weather events become more common and sea levels rise.

Climate Change Risks and Opportunities Ford Motor Company (Blueprint for Sustainability - Sustainability Report 07–08, p. 11).

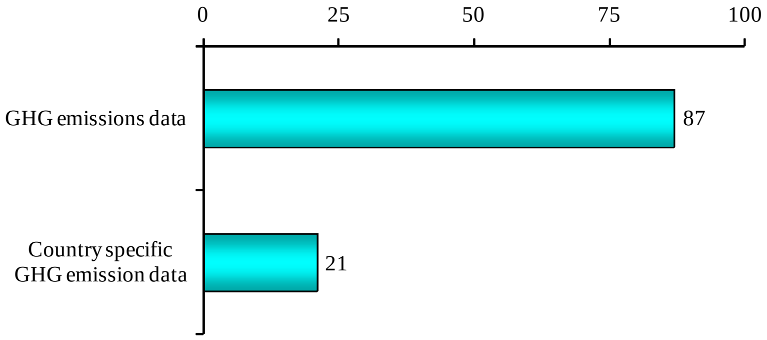
The past year has seen a seismic shift in the significance of the climate change issue in public awareness, political debate and government action, magnifying the risks and opportunities to Ford posed by the issue. These risks and opportunities include the following:

- Markets**:** Worldwide, record oil prices continue to drive buyers to shift from larger vehicles and light trucks to smaller vehicles, cars, crossovers and diesel-powered vehicles. Energy security is also a major concern in several markets in which we operate. (…) These market shifts are very significant to our company. Everywhere we operate, the future financial health of our company depends on our ability to predict market shifts of all kinds and to be ready with the products and services our customers demand.
- Regulations**:** The regulation of GHG emissions affects many areas of our business, including our manufacturing facilities and the emissions from our vehicles. For example, in Europe, GHG emissions from manufacturing facilities are regulated through a combination of emission limits and market-based mechanisms. (…) We have established global roles, responsibilities, policies and procedures to help ensure compliance with emissions requirements and participate in trading initiatives worldwide. We are also participating in the development of policies affecting our facilities and products (…).
- Investment Community**:** Both mainstream investment analysts and those who practice socially responsible investing are assessing companies in the auto sector for their exposure to climate risks and their positioning to take advantage of opportunities created by the issue. Thus, providing climate change-relevant information to investors and shaping our business strategy with climate change in mind are important elements of maintaining access to capital.
- Physical Risks: Extreme weather disrupts the production of natural gas, a fuel necessary for the manufacture of vehicles. Supply disruptions raise market rates and jeopardize the consistency of vehicle production. To minimize the risk of production interruptions, Ford has established firm delivery contracts with natural gas suppliers and installed propane tank farms at key manufacturing facilities as a source of backup fuel. Higher utility rates have prompted Ford to revisit and implement energy-efficiency actions that previously did not meet our internal rate of return.

2. Performance measurement

Performance in the reduction of absolute levels of GHG emissions is central to efforts to reduce climate change effects. Disclosures of absolute levels of emissions were found for a large majority of the TNCs (87). Less often disclosed was country-specific information on GHG emissions, for example a breakdown of a TNC's global emissions by country of origin. Only about one fifth of the companies in the sample provided this information. Given the global nature of climate change, it is probably true that aggregate global figures are most relevant to most stakeholders. However, given the increasing number of national initiatives to curb GHG emissions, country specific data can provide investors and other key stakeholders with useful insights into the future performance of certain business practices in certain jurisdictions. In a similar vein, country specific data can also assist regulators in better understanding the effects of national voluntary and legislated initiatives, and thus provide them with useful examples upon which to base future policy decisions.

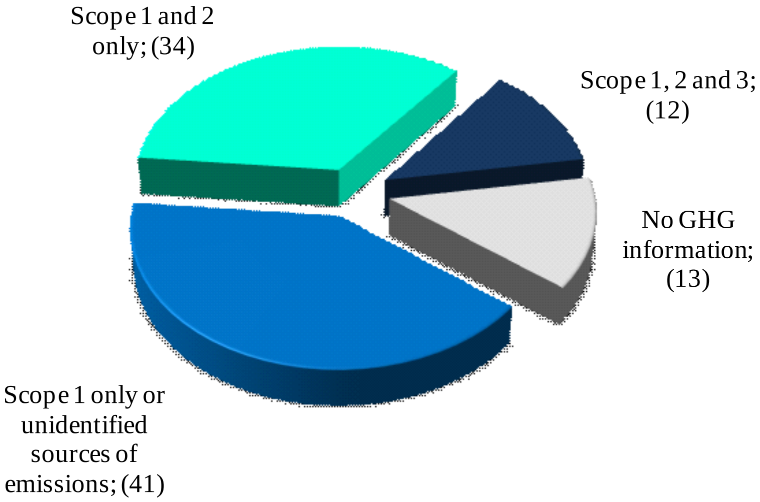
Figure III.2. Number of enterprises disclosing performance data related to greenhouse gas emissions



Source: UNCTAD, based on data from Ernst & Young.

The Greenhouse Gas Protocol, created by the World Resources Institute and the World Business Council for Sustainable Development, introduced the concept of *scope* for greenhouse gas information. Three "scopes" are defined for GHG accounting and reporting purposes to help delineate direct and indirect emission sources, improve transparency, and provide utility for different types of organizations and different types of climate policies and business goals. *Scope 1* emissions are direct GHG emissions that occur from sources that are owned or controlled by the reporting company. An example of Scope 1 emissions would be gases emitted directly from a factory. *Scope 2* emissions are indirect GHG emissions from the generation of electricity produced by an independent entity and consumed by the company. *Scope 3* emissions are other (not electricity-related) indirect emissions that are a consequence of the activities of the reporting company, but occur from sources not owned or controlled by the company. Examples of Scope 3 items would include emissions from suppliers to the reporting entity, specifically related to work done for the reporting entity. Figure III.3 below shows the level of detail of GHG emissions data, broken down into the three scopes.

Figure III.3. Use of Greenhouse Gas Protocol "scopes" in emissions reporting
(Number of enterprises, max = 100)



Source: UNCTAD, based on data from Ernst & Young.

As noted above, 87 of the 100 TNCs report at least some information on GHG emissions. This finding alone suggests that GHG disclosure among large TNCs is a mainstream practice. Questions remain, however, about the quality and comprehensiveness of the reporting. Nearly half of the 87 companies reporting GHG emissions data do so at Scope 1, or without identifying the source of emissions. This study grouped all unidentified sources of emissions with Scope 1 information on company direct emissions only. To clearly distinguish between different scopes, company reports must include information on such things as whether electricity generation or other sources of fuel are included, whether all business units are included, and how the emissions are calculated. Often missing, this information is crucial to providing investors, policymakers and other stakeholders with a complete understanding of the nature of a company's emissions, and the potential impact of GHG reduction mechanisms on a company's operations.

A third of the TNCs also report on Scope 2 emissions, which are the emissions derived from purchased electricity. This demonstrates an important awareness among the companies about the environmental impact of electricity suppliers. It further underscores what has become a key tenet in corporate responsibility, that companies must consider the social and environmental impacts of their suppliers (in this case, electricity suppliers). This is particularly important in a world where there are various technologies for electricity generation, each of which has different levels of GHG emissions. In the future, all else being equal, companies may prioritize investment in locations that have not only affordable energy supplies, but also cleaner energy supplies.

Finally, it should be noted that a small number of companies (12) report on all three scopes outlined in the GHG Protocol. Scope 3 reporting in particular demonstrates not only a highly sophisticated reporting system, but a very in-depth knowledge about company operations. While all TNCs require good skills in value chain management, the Scope 3 level of reporting arguably reflects those companies that have a greater than average knowledge of their value chain. This knowledge, and the information conveyed in Scope 3 reports, can help companies to properly evaluate risks to the entire value chain that might stem from changing GHG emissions regimes. In a world where TNCs are typically highly dependent upon vast value chains, such information becomes crucially important to effective risk management and evaluation of the sustainability of the enterprise.

3. Reporting framework and assurance

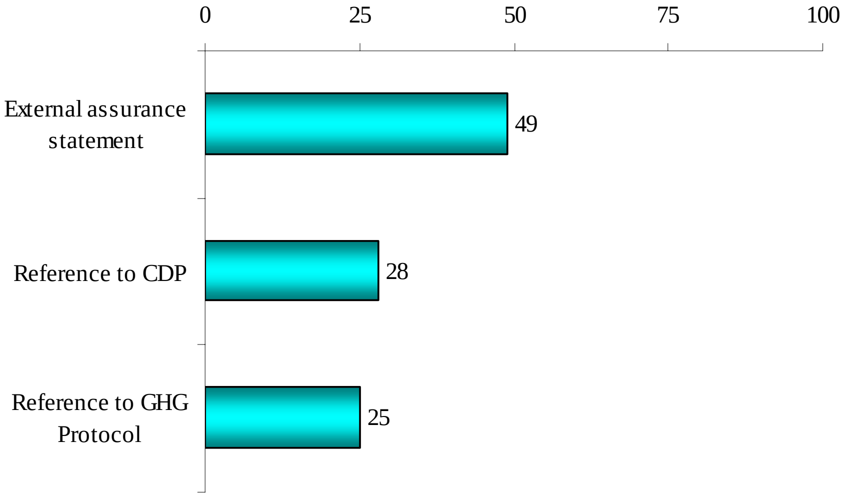
Producing high-quality, consistent and comparable reports requires a standardized reporting framework. Providing additional assurance to a report can enhance its credibility. A number of reporting frameworks and assurance standards exist in the area of CSR and environmental reporting. This study looks at the use of two reporting frameworks which focus more specifically on GHG emissions and climate change.

The first is the Carbon Disclosure Project (CDP), which conducts annual questionnaires of companies on carbon emissions and is also the secretariat for the Carbon Disclosure Standards Board, a multi-stakeholder group that seeks to harmonize existing practices in GHG emissions disclosure. The CDP is an independent not-for-profit organization which holds the largest database of corporate climate change information in the world. The data is obtained from responses to CDP’s annual Information Requests asking companies for information on their GHG emissions. The Information Requests are issued on behalf of institutional investors, purchasing organizations and government bodies. In 2008, more than 1,550 Responding Companies participated in the sixth year of this data request (a.k.a. “CDP6”). These companies vary in size and include some of the largest companies in the world.

The second climate change-specific framework examined is the GHG Protocol, already explained above. The reports of the 100 TNCs were examined to determine if they contained assurance statements related to their environmental reporting.

Figure III.4. Number of enterprises referencing climate change-specific reporting frameworks and including assurance statements

(Number of enterprises, max = 100)



Source: UNCTAD, based on data from Ernst & Young.

A quarter of the enterprises make reference to the GHG Protocol, with slightly more making reference to the CDP. Although only 25 of the TNCs refer explicitly to the GHG Protocol, it was noted in subsection D.2 above that a significant proportion of companies are categorizing their GHG emissions data according to the three “scopes” recommended by the GHG Protocol. While this may be a case of the GHG Protocol simply reflecting existing best practice, it may also be the case that reporting frameworks like the GHG Protocol can influence company reports, even if report preparers do not reference the reporting framework.

Companies sometimes choose to add credibility to their reported information by asking for assurance. There are various assurance standards in use, including the two most frequently used: AA1000AS produced by AccountAbility and the International Standard on Assurance Engagements (ISAE3000) produced by the International Accounting and Auditing Standards Board.[44] This study did not test for the exact assurance standard used, only whether or not an assurance statement of any kind accompanied the company’s sustainability reporting. Nearly half of the reports examined provide some level of assurance.

E. Reflections on findings and recommendations

While the world’s largest TNCs have already begun to adopt a range of voluntary practices to address issues of climate change and make related information available in their public reports, problems with the quality and consistency of reporting remain. In the absence of standardized and mandated reporting frameworks for GHG emissions, inconsistencies are likely to continue, thus diminishing the usefulness of such information for policymakers, investors and other stakeholders.

The disclosure of GHG emissions would benefit from an internationally harmonized approach to the way companies explain, calculate and define emissions. In the same way national tax policies are enabled by regulated accounting standards to determine income, national low-carbon strategies would be enabled by a mandated standard for calculating and reporting GHG emissions. Furthermore, internationally harmonized reporting would enable international agreements on climate change-related emissions, as well as provide investors and other stakeholders a clear, comparable view of emissions around the world. The global community has benefited from common international accounting standards (e.g. International Financial Reporting Standards) and likewise they would benefit from consensus on an internationally harmonized climate disclosure model.

To address this issue, policymakers could encourage wider adoption of one of the existing generally accepted frameworks for emissions reporting in order to improve the transparency of calculations and the comparability between companies. Ultimately, such frameworks will need to move from the testing grounds of voluntary initiatives into the world of regulatory initiatives: one policy option for this is to specify an existing GHG reporting framework and make reporting on it a listing requirement for companies listed on stock exchanges (e.g. South Africa has done something like this when it required all listed companies to report using the sustainability guidelines of the Global Reporting Initiative).

Internationally, the United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting is one vehicle through which member States could work. ISAR can serve three primary functions in this area: (a) facilitate an exchange of experiences between government regulators and various global multi-stakeholder initiatives working on standardizing climate change related reporting (including the Carbon Disclosure Standards Board and the Global Reporting Initiative); (b) engage in consensus–building with a view to promote harmonization between existing national regulatory and voluntary multi-stakeholder reporting standards; and (c) provide technical cooperation to member States to assist with implementation of best practices in the area of corporate disclosure on climate change.

Endnotes

[36] The data and analysis presented in this study were prepared by the UNCTAD secretariat in cooperation with the Ernst and Young EMEIA CSR Knowledge Center and the CSR Management & CSR Auditing Programme at Erasmus University, Rotterdam.

[37] Note that use of GRI indicators, which cover a broad range of sustainability issues, including climate change, was covered in chapter I.

[38] Refers to any of the standards within the ISO 14000 family of environmental management standards. The standards ISO 14001:2004 and ISO 14004:2004 deal with environmental management systems (EMS). ISO 14001:2004 provides the requirements for an EMS and ISO 14004:2004 gives general EMS guidelines. The other standards and guidelines in the family address specific environmental aspects, including: labeling, performance evaluation, life cycle analysis, communication and auditing.

[39] The Greenhouse Gas Protocol Corporate Standard, produced by the World Resources Institute and the World Business Council for Sustainable Development, is an international accounting tool for companies and other organizations preparing a GHG emissions inventory. It covers the accounting and reporting of the six greenhouse gases covered by the Kyoto Protocol: carbon dioxide (CO_2); methane (CH_4); nitrous oxide (N_2O); hydrofluorocarbons (HFCs); perfluorocarbons (PFCs); and sulphur hexafluoride (SF_6). Additional information can be obtained from www.ghgprotocol.org.

[40] Slight modifications have been made to the list found in the *World Investment Report 2008* to account for merger and acquisition activity in the time since the data was originally compiled; these are indicated by a footnote in annex I.2. For a complete list of companies in this study, see annex I.2.

[41] Corporate reporting on a consolidated basis for 2008 was used in this study; when information for 2008 was not yet available, 2007 reporting was examined.

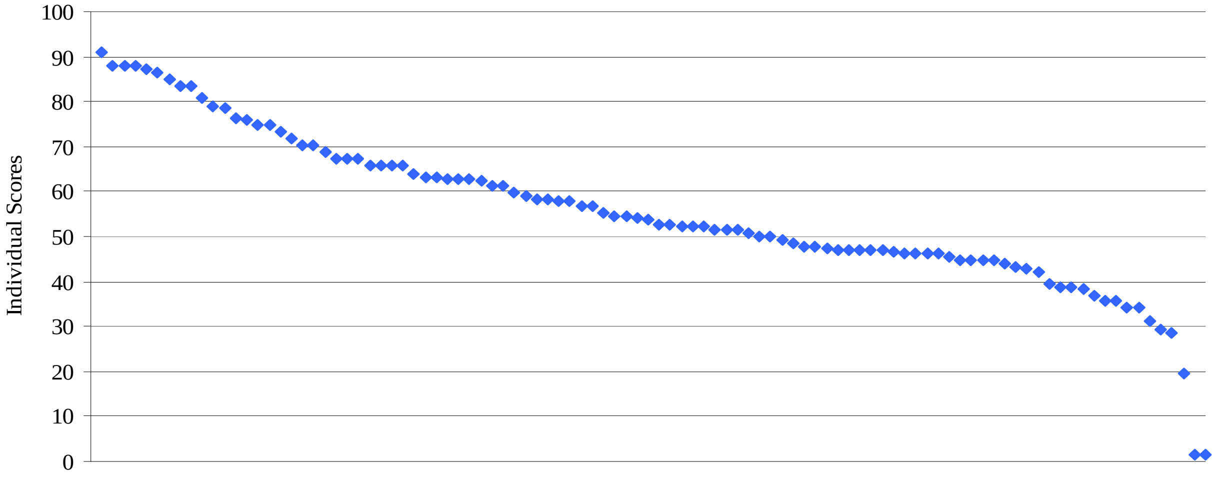
[42] Please see subsection C.3 below for an explanation of the GHG protocol and the concept of “scopes” along with definitions for Scopes 1, 2 and 3.

[43] There are a number of other initiatives outside the Kyoto Protocol involving offset purchasing e.g. voluntary offset initiatives; however these were not examined in this report. Further work in this area could include research into TNC practice and these other initiatives.

[44] For analysis on commonly used assurance statements, see the 2008 report “The CSR Assurance Statement Report” by CorporateRegister.com.

Annexes

Annex I.1. Final overall environmental, social and governance scores for the top 100 TNCs sampled



Source: EIRIS.

Annex I.2. List of enterprises included in the study

	Corporation	Home economy	Industry
1.	AES Corporation	United States	Electricity, gas and water
2.	Alcoa	United States	Metal and metal products
3.	Altria Group Inc	United States	Tobacco
4.	Anglo American	United Kingdom	Mining & quarrying
5.	Anheuser-Busch Inbev[1]	Netherlands	Consumer goods/brewers
6.	Arcelor Mittal[2]	Netherlands	Metal and metal products
7.	BAE Systems Plc	United Kingdom	Transport equipment
8.	Barrick Gold Corp.	Canada	Gold mining
9.	BASF AG	Germany	Chemicals
10.	Bayer AG	Germany	Pharmaceuticals/chemicals
11.	Bertelsmann	Germany	Retail
12.	BHP Billiton Group	Australia	Mining & quarrying
13.	BMW AG	Germany	Motor vehicles
14.	British American Tobacco Plc	United Kingdom	Tobacco
15.	British Petroleum Company	United Kingdom	Petroleum expl./ref./distr.
16.	Carrefour SA	France	Retail
17.	Cemex S.A.	Mexico	Non-metallic mineral products
18.	Chevron Corporation	United States	Petroleum expl./ref./distr.
19.	Christian Dior SA	France	Textiles
20.	Coca-Cola Company	United States	Beverages
21.	Compagnie De Saint-Gobain	France	Non-metallic mineral products
22.	ConocoPhillips	United States	Petroleum expl./ref./distr.
23.	CRH Plc	Ireland	Lumber and other building materials
24.	Daimler AG[3]	Germany	Motor vehicles
25.	Deutsche Post World Net[4]	Germany	Transport and storage
26.	Deutsche Telekom AG	Germany	Telecommunications
27.	Diageo Plc	United Kingdom	Beverages
28.	Dow Chemical Company	United States	Chemicals
29.	E.On	Germany	Electricity, gas and water
30.	Eads	Netherlands	Aircraft and parts
31.	Electricite De France	France	Electricity, gas and water
32.	Endesa	Spain	Electric utilities
33.	Eni Group	Italy	Petroleum expl./ref./distr.
34.	Exxon Mobil Corporation	United States	Petroleum expl./ref./distr.
35.	Fiat Spa	Italy	Motor vehicles
36.	Ford Motor Company	United States	Motor vehicles
37.	France Telecom	France	Telecommunications
38.	GDF Suez[5]	France	Electricity, gas and water
39.	General Electric	United States	Electrical & electronic equipment
40.	General Motors	United States	Motor vehicles

---

[1] Formerly "Inbev SA" in the *World Investment Report 2008.*
[2] Formerly "Mittal Steel Company NV" in the *World Investment Report 2008.*
[3] Formerly "DaimlerChrysler" in the *World Investment Report 2008.*
[4] Formerly "Deutsche Post AG" in the *World Investment Report 2008.*
[5] Formerly "Suez" in the *World Investment Report 2008.*

41.	GlaxoSmithKline plc	United Kingdom	Pharmaceuticals
42.	Hewlett-Packard	United States	Electrical & electronic equipment
43.	Hitachi Ltd	Japan	Electrical & electronic equipment
44.	Holcim AG	Switzerland	Non-metallic mineral products
45.	Honda Motor Co. Ltd.	Japan	Motor vehicles
46.	Hutchison Whampoa Limited	Hong Kong, China	Diversified
47.	Hyundai Motor Company	Republic of Korea	Motor vehicles
48.	IBM	United States	Electrical & electronic equipment
49.	Johnson & Johnson	United States	Pharmaceuticals
50.	Lafarge SA	France	Non-metallic mineral products
51.	L'Air Liquide Groupe	France	Chemicals
52.	Liberty Global Inc	United States	Telecommunications
53.	Linde AG	Germany	Industrial trucks, tractors, trailers
54.	Marubeni Corporation	Japan	Wholesale trade
55.	McDonald's Corporation	United States	Food & beverages
56.	Metro AG	Germany	Retail
57.	Mitsubishi Motors	Japan	Motor vehicles
58.	Mitsui & Co Ltd	Japan	Wholesale trade
59.	National Grid Transco	United Kingdom	Energy
60.	Nestlé SA	Switzerland	Food & beverages
61.	Nissan Motor Co Ltd	Japan	Motor vehicles
62.	Nokia	Finland	Telecommunications
63.	Novartis	Switzerland	Pharmaceuticals
64.	Panasonic[6]	Japan	Electrical & electronic equipment
65.	Pernod Ricard SA	France	Beverages
66.	Petronas – Petroliam Nasional	Malaysia	Petroleum expl./ref./distr.
67.	Pfizer Inc.	United States	Pharmaceuticals
68.	Philips Electronics	Netherlands	Electrical & electronic equipment
69.	Pinault-Printemps Redoute SA	France	Wholesale trade
70.	Procter & Gamble	United States	Diversified
71.	Renault SA	France	Motor vehicles
72.	Repsol YPF SA	Spain	Petroleum expl./ref./distr.
73.	Rio Tinto[7]	Australia, Canada	Metal and metal products
74.	Roche Group	Switzerland	Pharmaceuticals
75.	Royal Dutch/Shell Group	United Kingdom,	Petroleum expl./ref./distr.
76.	RWE Group	Germany	Electricity, gas and water
77.	SAB Miller	United Kingdom	Consumer goods/brewers
78.	Samsung Electronics Co., Ltd.	Republic of Korea	Electrical & electronic equipment
79.	Sanofi-aventis	France	Pharmaceuticals
80.	Schlumberger Ltd	United States	Other services
81.	Siemens AG	Germany	Electrical & electronic equipment
82.	Singtel Ltd.	Singapore	Telecommunications
83.	Sony Corporation	Japan	Electrical & electronic equipment

---

[6] Formerly "Matsushita Electric Industrial Co., Ltd" in the *World Investment Report 2008*.

[7] Replacement for "Alcan" which was listed in the *World Investment Report 2008*; Alcan was subsequently acquired by RioTinto

84.	StatoilHydro[8]	Norway	Petroleum expl./ref./distr.
85.	Telefonica SA	Spain	Telecommunications
86.	TeliaSonera AB	Sweden	Telecommunications
87.	Thomson Reuters[9]	Canada	Media
88.	Thyssenkrupp AG	Germany	Metal and metal products
89.	Total	France	Petroleum expl./ref./distr.
90.	Toyota Motor Corporation	Japan	Motor vehicles
91.	Unilever	United Kingdom, Netherlands	Diversified
92.	United Technologies	United States	Transport equipment
93.	Veolia Environnement SA	France	Water supply
94.	Vivendi Universal	France	Diversified
95.	Vodafone Group Plc	United Kingdom	Telecommunications
96.	Volkswagen Group	Germany	Motor vehicles
97.	Volvo AB	Sweden	Motor vehicles
98.	Wal-Mart Stores	United States	Retail
99.	WPP Group Plc	United Kingdom	Business services
100.	Xstrata PLC	United Kingdom	Mining & quarrying

---

[8] Formerly “Statoil Asa” in the *World Investment Report 2008*.

[9] Formerly “Thompson Corporation” in the *World Investment Report 2008*.

Annex I.3. Breakdown of industrial sectors by frequency

Sector	**Number of enterprises**
Motor vehicles	13
Petroleum expl./ref./distr.	10
Electrical & electronic equipment	9
Telecommunications	8
Pharmaceuticals	6
Electricity, gas and water	5
Diversified	4
Metal and metal products	4
Non-metallic mineral products	4
Retail	4
Beverages	3
Chemicals	3
Mining & quarrying	3
Wholesale trade	3
Consumer goods/brewers	2
Food & beverages	2
Tobacco	2
Transport equipment	2
Aircraft and parts	1
Business services	1
Electric Utilities	1
Energy	1
Gold mining	1
Industrial trucks, tractors, trailers and stackers	1
Lumber and other building materials dealers	1
Media	1
Other services	1
Pharmaceuticals/chemicals	1
Textiles	1
Transport and storage	1
Water supply	1

Key messages

Transnational corporations (TNCs) play an ever more important role in sustainable development as conduits of capital, technology, and management know-how. Increasingly, TNCs are being called upon to address broader environmental, social and governance (ESG) issues. At the same time, large globally active investment institutions are becoming increasingly aware of the potential impact of a range of non-financial issues (e.g. climate change, human rights, corporate governance practices) on an investment proposition.

This review of the current state of practices in the area of corporate social responsibility (CSR) among the world's 100 largest TNCs and responsible investment (RI) among the 100 largest institutional investors reveals a number of important insights:

(a) Private policy at a large enough scale can have an impact similar to, or greater than, public policy. As a result, CSR has emerged as an important area of soft law self-regulation (or "soft-regulation"). CSR can present policy makers with new options and tools for addressing key development challenges.

(b) Most large TNCs now recognize the importance of CSR, yet the standard of communication varies widely. There is a role for policymakers to enhance the quality of communications. Various policy options exist, such as supporting the harmonization of CSR reporting, and mandating such standardized reporting through stock exchange listing requirements.

(c) Responsible investment practices (efforts by investors to incorporate ESG issues into investment decisions and to engage with investee companies to encourage ESG practices) have become common features of the world's 100 largest pension funds. Regulators can work to strengthen the mechanisms through which institutional shareholders are able to influence the ESG practices of the companies in which they invest, while also encouraging investors to formally articulate their stance on ESG issues in public reports.

(d) At least basic climate change related information is now reported by most large TNCs. However, significant inconsistencies and inadequacies among company reports undermine the comparability and usefulness of this information. Unless reporting is produced in a consistent and comparable manner, it is difficult for policy makers, investors and other stakeholders to use it to make informed decisions. Policymakers could promote an internationally harmonized approach to the way companies explain, calculate and define climate change related emissions.

(e) A number of voluntary initiatives are taking a leading role in designing and facilitating CSR and responsible investment instruments, encouraging improved corporate communication on ESG issues and creating important benchmarks, based on universally agreed principles. Policymakers can become involved in these initiatives with the aims of promoting sustainable development goals and identifying useful tools to complement government rules.

www.unctad.org/csr