Guidance on corporate responsibility indicators in annual reports

Note by the UNCTAD secretariat

Executive summary

This draft guidance is prepared by the UNCTAD secretariat based on discussions that took place during the twentieth to the twenty-third sessions of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), during ad hoc consultative meetings during the inter-sessional periods, and on research into social and economic reporting practices. It provides an overview of the selected core social and economic indicators and detailed guidance for compiling and reporting these indicators.

Since its twentieth session, ISAR has recognized the demand for increased relevance and comparability in corporate responsibility reporting, and also recognized the need for providing voluntary technical guidance on such reporting as part of the information presented in corporate annual reports. It was agreed at the twenty-third session of ISAR that UNCTAD should further refine and finalize ISAR's work in this area, with a view to providing a voluntary technical tool for enterprises.

This work was undertaken within the framework of ISAR's mandate on promoting harmonization of best practices on corporate reporting, and in recognition of the call in the São Paulo Consensus for UNCTAD to carry out analytical work with a view towards facilitating and enhancing positive corporate contributions to the economic and social development of host developing countries.
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Introduction

1. The São Paulo Consensus of UNCTAD XI stated that UNCTAD should “assist developing countries, in particular LDCs (least developed countries), to design and implement active policies for building productive capacity and international competitiveness based on an integrated treatment of investment, corporate responsibility, technology transfer and innovation, enterprise development and business facilitation […], competitiveness, diversification and export capacity, to sustain a high level of growth and promote sustainable development” (TD/410, paragraph 49). The São Paulo Consensus also stated, “Corporate responsibility was recognized at the Johannesburg World Summit on Sustainable Development. In this regard, corporate actors have a positive role to play in stimulating the economic development of host countries and in supporting social and environmental development and the competitiveness of local enterprises.” (TD/410, paragraph 45). Member states stated “UNCTAD should carry out analytical work with a view towards facilitating and enhancing positive corporate contributions to the economic and social development of host developing countries” (TD/410, paragraph 58).

2. Since its eighteenth session, ISAR has viewed reporting on corporate responsibility as a significant emerging issue in the area of corporate transparency. ISAR recognized at its twentieth session that enterprises continued to produce more information on corporate responsibility, and that the pressure for improving reporting on social issues was increasing. The twenty-first session of ISAR began examining existing indicators so that corporate reports could be made more relevant and comparable. For the twenty-second session, the group identified a set of selection criteria and guiding principles to use when selecting reporting indicators. More details on these selection criteria and guiding principles, as well as users of corporate responsibility reporting and their information needs, can be found in the document TD/B/COM.2/ISAR/42.

3. During both the twenty-second and twenty-third sessions of ISAR, the group of experts suggested that a measurement methodology for the selected indicators could be developed to ensure their consistent reporting. It was agreed at ISAR’s twenty-third session that “UNCTAD should further refine and finalize the guidance on selected corporate responsibility indicators and their measurement methodology with a view to providing a voluntary technical tool for enterprises” (TD/B/COM.2/ISAR/35).

4. The objective of this report, which has been developed with reference to the Global Reporting Initiative (GRI) Guidelines and the International Financial Reporting Standards (IFRS), is to provide detailed work on measurement methodology with a view to providing voluntary guidance on the preparation of reports using the selected indicators. The present report is divided into two main sections and the conclusion. The first section provides a concise overview of the selected indicators in the form of a table. The second section provides detailed guidance on compiling each of the selected indicators and is organized around the following main points:

(a) **Background:** On the selection and relevance of the indicator;

(b) **Definitions:** Any specific terms that require clarification;

(c) **Compilation:** How to calculate the indicator; and

(d) **Presentation and disclosure:** Specific notes on reporting the indicator.
5. This work builds on earlier reports prepared by the secretariat for the twentieth, twenty-first, twenty-second and twenty-third sessions of ISAR. In particular, the report further develops the measurement methodology which was first approached during the twenty-third session in the document TD/B/COM.2/ISAR/34. An ad hoc consultative group, consisting of experts from a range of countries and organizations, was formed in 2007 during the intersession period to provide inputs to the development of this paper (see annex III).

I. Overview of selected indicators

6. Table 1 provides an overview of the indicators that were selected during ISAR’s deliberations on this subject, including further refinements.

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<td><strong>Group</strong></td>
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II. Review of measurement methodology for selected indicators

7. To ensure consistent reporting of the selected indicators presented in table 1, a measurement methodology is described for each of the indicators in the sections below. The methodology includes four parts: (a) background on the selected indicator; (b) definitions of terms used in compiling and presenting the indicator; (c) compilation guidance; and (d) presentation guidance.

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1 Previous papers prepared for ISAR on this subject include TD/B/COM.2/ISAR/20, TD/B/COM.2/ISAR/24, TD/B/COM.2/ISAR/29 and TD/B/COM.2/ISAR/34.
8. To better reflect corporate contributions to social and economic development within host countries, the measurement methodology for each indicator is intended to be used to compile relevant data for the national reports of an enterprise, rather than consolidated global reports. The use of national data, rather than globally consolidated data, should also improve the usefulness and comparability of information: for example, it would allow for benchmarking against the operations of the same enterprise in different countries, or comparing, within the same country, the contributions of one enterprise with those of its peers.

9. As noted in previous papers (TD/B/COM.2/ISAR/29 and TD/B/COM.2/ISAR/34), the selected indicators are drawn from a range of existing reporting initiatives, including financial reporting practices, the practices of specific enterprises, government reporting guidelines and GRI. Wherever possible, due care has been taken to use the same methodology as other organizations where the same indicator has been used. Note that indicators drawn from GRI2 (including related background, definitions, compilation and presentation) may have been modified to ensure consistency with ISAR’s selection criteria and guiding principles. For example, all GRI indicators have been modified to focus on nationally – rather than regionally or globally – consolidated reporting. Additional footnotes are provided which highlight areas of modification. Some indicators have also been modified to ensure consistency with IFRS.

10. This guidance recommends the use of accrual basis of reporting unless national law requires cash basis. The definitions have been based wherever possible on IFRS. The definitions of IFRS are recommended except where national law requires different definitions and accounting methodologies; in such situations, national accounting practices prevail. It is recommended to include a note explaining the definitions and accounting methodologies used in the annual report. Annex I of this document includes additional general definitions, which pertain to more than one indicator. Annex II contains additional notes relevant to specific indicators.

A. Trade, investment and linkages

1. Total revenues

11. **Background:** The total revenues of an enterprise allows for an approximate calculation of the enterprise’s overall economic relevance to the economy in which it operates.

12. **Definitions**

   (a) Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an enterprise when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

   (b) Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

13. **Compilation**

   (a) Revenues should be measured at the fair value of the consideration received or receivable.

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2 All references to GRI indicators in this paper refer to version 3.0 of GRI’s indicators, also known as the “G3” indicators, which were released in 2006.

3 For further information on selection criteria and guiding principles, see document TD/B/COM.2/ISAR/42.

4 These definitions are taken from IAS 18.
(b) Revenues from the sale of goods should be recognized when all the following conditions have been satisfied:5

(i) The enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods;

(ii) The enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(iii) The amount of revenue can be measured reliably;

(iv) It is probable that the economic benefit associated with the transaction will flow to the enterprise; and

(v) The costs incurred or to be incurred respecting the transaction can be measured reliably.

c) When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognized by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(i) The amount of revenue can be measured reliably;

(ii) It is probable that the economic benefit associated with the transaction will flow to the enterprise;

(iii) The stage of completion of the transaction at the balance sheet date can be measured reliably; and

(iv) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

14. **Presentation and disclosure**

(a) The figure for total revenues should correspond to the same data as reported elsewhere in the company’s (audited) financial statements, or its internally (audited) management accounts. It is encouraged to disclose revenues on a segmental basis, with a reference to International Accounting Standard (IAS) 14.

(b) In addition, value added information may be provided. Value added in enterprises is measured by the difference between the revenue from the goods and services produced and the cost of goods and services bought in. The value added model can assist the user of information to form an opinion concerning the scale and composition of the production factors used by the enterprise to produce the goods and services it provides, the macroeconomic significance of the enterprise and the distribution of the value-added of the different stakeholders deriving income from the enterprise.

2. **Value of imports vs. exports**

15. **Background:** The value of an enterprise’s exports in relation to its imports is an indicator of the contribution of an enterprise to the balance of payments of the country in which it operates. This issue is of particular relevance for developing countries which must manage their “hard currency” reserves.

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5 These conditions are taken from IAS 18.
16. **Definitions**

(a) Economic territory: This may not be identical with boundaries recognized for political purposes. A country’s economic territory consists of a geographic territory administered by a Government. Within this geographic territory, persons, goods and capital circulate freely. For maritime countries, geographic territory includes any islands subject to the same fiscal and monetary authorities as the mainland.

(b) Residence of enterprises: An enterprise is said to have a center of economic interest and to be a resident unit of a country (economic territory) when the enterprise is engaged in a significant amount of production of goods and/or services there or when the enterprise owns land or buildings located there, or otherwise meets the local entity requirements as defined by the country in which the enterprise is operating. The enterprise must maintain at least one production establishment (goods and/or services) in the country and must plan to operate the establishment indefinitely or over a long period of time.

(c) Export: Domestically produced good or service sold abroad.

(d) Import: A good or service purchased from foreign suppliers.

(e) FOB (free on board): The delivery of goods on board the vessel at the named port of origin (loading), at seller’s expense. The buyer is responsible for the main carriage/freight, cargo insurance and other costs and risks.

(f) CIF (cost, insurance and freight): The cargo insurance and delivery of goods to the named port of destination (discharge) at the seller’s expense. The buyer is responsible for the import customs clearance and other costs and risks.

17. **Compilation:** Data maintained for meeting generally accepted financial reporting requirements can be useful for calculating this indicator.

(a) Identify all cross-border transactions of the reporting company concerning its current, capital and financial account.

(b) Identify whether these transactions are exports or imports from the perspective of the reporting company.

(c) Calculate the contribution of the reporting company to the host country’s balance of payments (CCBP) using the following formula:

\[ \text{CCBP} = \sum \text{Export} - \sum \text{Import}. \]

(d) Transactions refer to:

(i) Current account: goods; services; income; current transfers;

(ii) Capital and financial account:

   a. Capital transfers: acquisition or disposal of non-produced, non-financial assets; and
   
   b. Financial assets and liabilities.

18. **Presentation and disclosure:** In the disclosure, the data on import and export should be shown separately. The use of transfer pricing, where applicable, should be explained, especially how prices were derived. The reasons for any significant year-on-year changes in the contribution of the enterprise to the balance of payments of the country should also be explained. The enterprise may provide additional information on the type of goods and/or services making the most significant contributions to imports and or exports.
3. Total new investments

19. **Background:** New investments by enterprises can have a positive economic and social impact. This is especially the case when new investments go toward buildings, machinery, equipment and intangible assets, as these investments can lead to the development of productive capacity and the reduction of poverty in host developing countries.

20. **Definitions**

   (a) Investments can be considered as both:

      (i) Direct investments made by the reporting enterprise into another entity in the same country; and

      (ii) Investments by the reporting enterprise to create, among others, new productive capacity or new technology (e.g. the purchase of new facilities, new production technology, etc.).

   (b) Foreign direct investment made into the country of the reporting enterprise, and made by a related party of the reporting enterprise (e.g. a parent firm), should be reported as new investment by the reporting enterprise.

   (c) Investments do not include ongoing operational costs of existing equipment or facilities. They do not include the costs of training or health and safety, which are already captured by other indicators in this guidance. They do not include financial instruments held for short-term cash management purposes.

   (d) Financial instruments are any contract that gives rise to both a financial asset of one entity and a financial liability.

21. **Compilation:** Data on new investments the reporting entity made as detailed in the definition above identify new investments and calculate the total amount of new investments as described in the definitions based on invoices.

22. **Presentation and disclosure:** Figures on new investments should be presented with a breakdown by the different types of investment detailed in definitions (a) and (b) above. The reasons for any significant year-to-year changes should be explained. In addition, information may be provided on the expected amortization period of the most significant investments made.

4. Local purchasing

23. **Background:** Forging supplier linkages with domestic companies is an important channel for increasing local value added and creating employment. Costs of local purchasing are a general indicator of the extent of an enterprise’s linkages with the local economy.

24. **Definitions:** Purchasing is defined as “local” when it:6

   (a) Concerns “local products” which are those produced in the same country as the reporting enterprise, or otherwise meet the local content requirements as defined by the Government of that country; or

   (b) Concerns “local services” which are those provided by an enterprise that is incorporated in the same country as the reporting enterprise, or otherwise

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6 The reference to “local content requirements” and “local entity requirements” here refers to those terms as they are used under the rules of the World Trade Organization for determining local content and local entities.
meets the local entity requirements as defined by the Government of that country.

25. **Compilation**
   
   (a) Identify the items of local purchasing included in the reporting period.
   
   (b) Calculate the costs of local purchasing during the reporting period (i.e. accruals accounting).

26. **Presentation and disclosure**
   
   (a) The total amount of local purchasing is presented as an absolute figure, and also as a percentage of total purchasing.
   
   (b) Additional information may be included in the presentation, such as the number of local enterprises from which goods and services were purchased, the nature of the goods or services, or the identity of any major suppliers of goods or services. Further information may be provided on major commitments made during the reporting period.

**B. Employment creation and labour practices**

1. **Total workforce with breakdown by employment type, employment contract and gender**

27. **Background:** One of the most significant positive economic and social contributions an enterprise can make to the country in which it operates comes through the creation of jobs. An enterprise’s efforts towards eliminating discrimination are also a positive social contribution to the country in which it operates. The extent to which an enterprise reduces discrimination can be considered a measure of the management team’s ability to recruit and retain people on the basis of merit, and will benefit the enterprise in recruiting and retaining the best talent. Given the guiding principles for selecting indicators, and in particular the universality principle, the selected indicator includes a breakdown by gender.

28. **Definitions**

   (a) **Employment types:**
   
   (i) Full-time employment: A “full-time employee” is defined according to national legislation, collective bargaining agreements and practice regarding working time. It is often defined in terms of months per year or hours per week employed.
   
   (ii) Part-time employment: A “part-time employee” is an employee whose working hours per week, or months per year are less than “full time” as defined above.
   
   (iii) Supervised contract worker: Person who directly supplies work and services to the reporting organization but whose formal contract of employment is with another organization.

   (b) **Employment Contract:**
   
   (i) A contract as recognized under national law or practice that may be written, verbal or implicit (i.e. when all the characteristics of employment are present but without a written or witnessed verbal contract).

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7 This indicator is based on GRI indicator LA1, with modifications including the additional breakdown by gender.
(ii) Indefinite or permanent contract is a permanent contract of employment with an employee for full-time or part-time work for an indeterminate period.

(iii) Fixed term or temporary contract is a contract of employment as defined above that ends when a specific time period expires, or when a specific task that has a time estimate attached is completed. A temporary contract of employment is of limited duration and terminated by a specific event, including the end of a project or work phase, return of replaced personnel, etc.

29. Compilation

(a) Identify the total workforce (employees and supervised workers) working for the reporting entity at the end of the reporting period. Outsourced activities are not included in this compilation. Supply chain workers are not included in this indicator.

(b) Identify the contract type and full-time and part-time status of employees based on the definitions described above.

(c) Calculate the full-time equivalents of employees. This is the number of employees reflected in full time status, e.g. two employees working each 50 per cent equal one full-time equivalent.

30. Presentation and disclosure

(a) The following figures should be presented:

(i) Total workforce broken down by employees and supervised workers;

(ii) Total number of employees broken down by type of employment contract (permanent or temporary);

(iii) Total number of employees broken down by employment type (full-time or part-time);

(iv) Items i, ii and iii, above, broken down by gender; and

(v) Full-time equivalents broken down by gender.

(b) Additional information that may be reported:

(i) Companies may also want to provide additional information related to issues of discrimination, including information on minorities or historically disadvantaged groups, based on the circumstances of the country in which the reporting enterprise is located. Additionally, enterprises may choose to report information on the age of their workers, in which case it is recommended that the total number of employees be broken down by the following age groups: <30; 30-50; >50.

(ii) If a substantial portion of the organization’s work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, it is recommended to include this information.

(iii) Sometimes an average number of employees in the reporting period may provide more insight. In this case, it is recommended to include an overview of average number per quarter.

(iv) Information on seasonal or temporary contract workers, agency workers and self-employed workers may be presented in the
explanatory notes to the table. Agency workers are provided to companies by a temporary agency and usually are recognized as employees of the agency that provides them or as co-employees of the agency and the company using their labour. Self-employed workers are recognized as parties in a legitimate commercial relationship with the company. If applicable, any significant seasonal variations in employment numbers (e.g. in the tourism or agricultural industries) or of significant numbers of agency workers or of self-employed individuals should be explained.

(v) Reasons for any significant variation between the indicators reported and those relating to previous periods may be explained.

2. Employee wages and benefits with breakdown by employment type and gender

31. Background: Another significant positive economic contribution an enterprise can make to the community in which it operates comes through the payment of wages and other benefits to employees. The total payroll of an enterprise, through the multiplier effect, supports the economic activity and economic development of the community in which the employees live. This indicator should reflect the total costs of the employee workforce.

32. Definitions: Employee benefits:8

(a) Employee benefits are all forms of consideration given by an enterprise in exchange for services rendered by employees.

(b) Short-term employee benefits are those (other than termination benefits) which fall due wholly within 12 months after the end of the period in which the employees render the related service.

(c) Post-employment benefits are those (other than termination benefits) which are payable after the completion of employment.

(d) Termination benefits are employee benefits payable as a result of either:

(i) An enterprise's decision to terminate an employee’s employment before the normal retirement date; or

(ii) An employee's decision to accept voluntary redundancy in exchange for those benefits.

(e) Examples of employee benefits include:

(i) Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within 12 months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees;

(ii) Post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care; and

(iii) Other long-term employee benefits, including long-service leave or sabbatical leave, or other long-service benefits, long-term disability benefits and, if they are not payable wholly within 12 months after the end of the period, profit-sharing, bonuses and deferred compensation.

8 The definitions and examples are taken from IAS 19.
33. **Compilation**
   (a) Identify the types of benefits provided to employees.
   (b) Identify the cost of benefits provided to employees as reported elsewhere in the company’s (audited) financial statements, or its internally (audited) management accounts.

34. **Presentation and disclosure**
   (a) The data on total benefits should be presented providing a breakdown by:
      (i) Payroll and other types of benefits;
      (ii) Major groups of employees as defined by the International Labour Organization’s (ILO’s) guidance International Standard Classification of Occupations;
      (iii) Type of employment contract (part-time/full-time/other); and
      (iv) Gender.
   (b) Additional information may be provided on the type of benefits provided to full-time employees of the organization (e.g. insurance, housing, education, pensions, etc.).
   (c) Reasons for any significant variation between the indicators reported and those relating to previous periods should be explained.

3. **Total number and rate of employee turnover broken down by gender**

35. **Background:** Workforce turnover rates can reflect the job security of employees and the employment practices of an enterprise. Important issues should initially be reflected in an enterprise’s turnover statistics, which should be compared to industry averages, best practice within the enterprise’s industry, or even other industries.

36. **Definition:** Turnover: number of employees who leave the organization voluntarily (done or undertaken of one’s own free will) or due to dismissal, retirement or death in service.

37. **Compilation**
   (a) Identify total number of employees leaving employment during the reporting period.
   (b) Identify the reason of departure (e.g. individual dismissal, retirement, death, restructuring, etc.).
   (c) Calculate the absolute number and rate of employees leaving employment during the reporting period. Rates should be calculated using the total employee numbers at the end of the reporting period.

38. **Presentation and disclosure**
   (a) The following figures should be presented:
      (i) Total turnover of employees;
      (ii) Total turnover of employees broken down by reason of departure; and
      (iii) Total turnover of employees broken down by gender.

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This indicator is based on GRI indicator LA2, with modifications including a focus on breakdown by gender and reason for departure.
(b) Additional information may be provided on the reasons for retrenchments and dismissals or exceptional levels of employee turnover. Enterprises may also choose to report the total turnover of employees broken down by the following age groups: <30; 30-50; >50.

4. **Percentage of employees covered by collective agreements**\(^{10}\)

39. **Background:** The right of workers to join or form their own organizations and to bargain collectively with their employer over the conditions of their work is internationally recognized. Whether or not employees exercise these rights in practice varies by location, industry and enterprise. Collective bargaining is recognized as an effective private means for increasing the positive social impact of business activity. Collective bargaining is an important form of governance that contributes to development. For those stakeholders who are trying to assess the relationship between management and workers, it is helpful to know how many employees are covered by collective bargaining agreements.

40. **Definitions:** This indicator refers to collective bargaining agreements signed by the reporting enterprise itself or by employer organizations of which it is a member. These agreements may be at the sectoral, national, regional, organizational or workplace level.

41. **Compilation**

(a) Use data from indicator number 1 above (total workforce) as the basis for calculating percentages for this indicator.

(b) Identify the number of employees covered by collective bargaining agreements.

(c) State the combined number of employees covered as a percentage of the total number of employees.

42. **Presentation and disclosure:** Reasons for any significant variation between the indicators reported and those relating to previous periods should be explained.

C. **Technology and human resource development**

1. **Expenditure on research and development**

43. **Background:** Process and product technologies are often the drivers behind an enterprise’s competitive advantage, and such technologies are also acknowledged as a key ingredient in the economic development of host countries.

44. **Definitions**\(^{11}\)

(a) Research:

(i) Basic research: Systematic study directed toward fuller knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications towards processes or products in mind;

(ii) Applied research: Systematic study to gain knowledge or understanding necessary to determine the means by which a recognized and specific need may be met;

\(^{10}\) This indicator is based on GRI indicator LA4.

\(^{11}\) The definitions are taken from the United States National Science Foundation (www.nsf.gov).
(b) Development: Systematic application of knowledge or understanding, directed toward the production of useful materials, devices, and systems or methods, including design, development, and improvement of prototypes and new processes to meet specific requirements.

45. Compilation

(a) Research or development costs that:

(i) Relate to an in-process research or development project acquired separately or in a business combination and recognized as an intangible asset; and

(ii) Are incurred after the acquisition of that project shall be accounted for in accordance with IAS 38, pp. 54–62.

(b) To assess whether an internally intangible generated asset meets the criteria for recognition, an entity classifies the generation of the asset into a research phase and a development phase.

(c) No intangible asset arising from research (or from the research phase of an internal project) shall be recognized. Cost of research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred.

(d) An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, an entity can demonstrate all of the following:

(i) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

(ii) Its intention to complete the intangible asset and use or sell it;

(iii) Its ability to use or sell the intangible asset;

(iv) How the intangible asset will generate future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(v) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(vi) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

46. Presentation and disclosure

(a) Total expenditure on research and development for the reporting entity should be presented as per the definitions and compilation formula above.

(b) Intangible assets arising from development should be disclosed.

(c) Additional information may be included in the presentation, such as an explanation of the reporting enterprise’s principal research and development projects, expected results and the expected timeframe of the projects. Further details on significant differences in year-on-year expenditure could also be provided.
2. **Average hours of training per year per employee broken down by employee category**\(^{12}\)

47. **Background:** One of the ways in which companies can best contribute to the capacity for innovation of local communities is by enabling employees to develop their skills. Training local employees enhances the quality of their employment position. In economic terms, training of employees represents the management’s conscious effort to invest in its human resources. In addition, developing employee knowledge, or “know-how”, is a key element of the broader development of technology and productivity which fuels enterprise development. Employee training can be measured in two ways: by average hours of training per employee and by expenditure on training per employee (see indicator number 11 below).

48. **Definitions**

(a) **Training:** This includes all types of vocational training and instruction, paid educational leave provided by the reporting organization for its employees, training or education pursued externally and paid for in whole or in part by the reporting organization, and training on specific topics such as health and safety. It does not include on-site coaching by supervisors.

(b) **Employment category:** Major groups of employees as defined by ILO’s guidance International Standard Classification of Occupations.

49. **Compilation**

(a) Identify the number of employees for each major group of employment category across the organization’s operations at the end of the reporting year. The organization should use the definition of “major group” of employment category set out in ILO’s guidance International Standard Classification of Occupations.

(b) Identify total hours devoted to training personnel within each major group of employment category.

(c) State the number of hours of training per year per employee by category of employee using the following formula:

\[
\text{Average number of hours of training per employee per year per category} = \frac{\text{Total hours of training per year per category}}{\text{Total employees per category}}
\]

50. **Presentation and disclosure:** The reasons for any significant variation between the indicators reported and those relating to previous periods should be explained. A distinction may be considered between general training focusing on personal development and specific training on knowledge development, e.g. leadership, information technology skills, communication skills, language, teamwork, knowledge, personal growth, etc. In addition, the disclosure of a reference to the employee’s own time investment due to following training and preparing for training in their own time may also be considered. Also, information concerning on-the-job training can be disclosed when applicable.

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\(^{12}\) This indicator is based on GRI indicator LA10, with modifications including the use of the International Labour Organization International Standard Classification of Occupations to define employee categories.
3. Expenditure on employee training per year per employee broken down by employee category

51. **Background:** Expenditure on employee training is another indicator reflecting an enterprise’s positive contribution towards the development of human resources.

52. **Definitions**

Costs of external and internal vocational training courses:

(a) Fees and payments (to vocational training providers and external trainers): This refers to the total amount paid in fees for external courses or for external trainers or instructors (including those providing internal courses). It also includes payments made to external consultants, assessors or examiners for course-related activities. Any payments made by employers for courses that have been undertaken in employees’ own time are included. Fees for training courses undertaken by apprentices or trainees are excluded. Fees and payments for learning material for open and distance courses are, wherever possible, excluded.

(b) Travel and subsistence payments: This refers to actual payments made to cover the travel and subsistence costs of employees participating in vocational training courses. It also includes any additional payments made for time spent traveling to courses.

(c) Labour costs of internal trainers exclusively involved in managing and delivering vocational training courses.

(d) Labour cost of internal trainers, partly involved in managing and delivering vocational training courses. The staff engaged in designing, managing, conducting or supporting vocational training courses, comprising:

   (i) Internal trainers and staff of training centres;
   
   (ii) Directors and other top managers concerned with training policy;
   
   (iii) Instructors and training managers or officers; and
   
   (iv) Clerical/administrative and other personnel supporting these activities.

Anyone dealing solely with apprenticeship training and anyone who is not a member of the normal workforce of the enterprise were excluded. For staff engaged full time in course-related activities, the figures quoted should be the total annual labour costs of all those identified. For staff engaged part time in course-related activities, it should be a proportion of their labour costs, reflecting the proportion of time they spent on course-related activities.

(e) Costs of premises. These costs include:

   (i) The cost of running a training centre (excluding staff labour costs) or any other premises used for vocational training courses;
   
   (ii) Equipment or materials bought specifically for vocational training courses; and
   
   (iii) If the training centre or other premises or equipment are used only partly for vocational training courses, (e.g. if used also for training of apprentices), a proportion of the total cost should be included,
representing the proportion of time they are used for vocational training courses.

(f) Contributions to collective funding arrangements.

(g) Receipts for vocational training courses. Receipts from collective funds, i.e. grants for vocational training courses, and from sources of revenue for vocational training courses like: Receipts from Regional/Sector funds; Receipts from National Funds; Government subsidies; Government rebates on expenditures; Tax concessions on the expenditures; External financial assistance from non-government sources, such as private foundations; Receipts for vocational training courses provided to external bodies and persons.

53. **Compilation**

(a) Identify the training costs from the sources, which are known in the enterprise (accounts, data files, minutes, etc.).

(b) Identify estimates of the training costs only if these data were not available.

(c) Calculate the cost using the following formula and provide the data broken down by each major group of employment category across the organization’s operations at the end of the reporting year. The organization should use the definition of “major group” of employment category set out in ILO’s guidance International Standard Classification of Occupations.

\[
\text{Cost of employee training} = \text{Direct costs of training} + \text{Indirect costs of training}
\]

\[
\sum \text{Costs described under (52.a) to (52.f)} - \sum \text{Value of receipts, grants, rebates and other concessions and assistance described under (52.g)}
\]

54. **Presentation and disclosure**: Reasons for any significant variation between the indicators reported and those relating to previous periods should be explained. It should be noted that this indicator can be distorted by the costs of expensive training courses that are provided for a few employees. Additional information may be provided on the type of training, such as general training focusing on personal development and specific training on knowledge development. Additional reference can also be made to employees’ own time investment, as well as reference to training on the job.

D. **Health and safety**

1. **Cost of employee health and safety**

55. **Background**: Employee health and safety represent one of the most important corporate responsibility issues confronting organizations. This is particularly true for companies operating in an environment with weak regulatory infrastructure in an inherently hazardous industry. Occupational accidents lower employee productivity, undermine human capital development, divert management attention, and could be symptomatic of poor management quality and lack of adequate internal management systems.

56. **Definitions**: Employee safety: occupational safety, occupational health and working environment is related to the following fields (ILO R164, II, 3): (a) design, citing, structural features, installation, maintenance, repair and alteration of workplaces and means of access thereto and egress therefrom; (b) lighting,
ventilation, order and cleanliness of workplaces; (c) temperature, humidity and movement of air in the workplace; (d) design, construction, use, maintenance, testing and inspection of machinery and equipment liable to present hazards and, as appropriate, their approval and transfer; (e) prevention of harmful physical or mental stress due to conditions of work; (f) handling, stacking and storage of loads and materials, manually or mechanically; (g) use of electricity; (h) manufacture, packing, labeling, transport, storage and use of dangerous substances and agents, disposal of their wastes and residues, and, as appropriate, their replacement by other substances or agents which are not dangerous or which are less dangerous; (i) radiation protection; (j) prevention and control of, and protection against, occupational hazards due to noise and vibration; (k) control of the atmosphere and other ambient factors of workplaces; (l) prevention and control of hazards due to high and low barometric pressures; (m) prevention of fires and explosions and measures to be taken in case of fire or explosion; (n) design, manufacture, supply, use, maintenance and testing of personal protective equipment and protective clothing; (o) sanitary installations, washing facilities, facilities for changing and storing clothes, supply of drinking water, and any other welfare facilities connected with occupational safety and health; (p) first-aid treatment; (q) establishment of emergency plans; and (r) supervision of the health of workers.

57. **Compilation**

(a) Identify the company’s cost of occupational safety and health-related insurance programmes (when such programmes exist). Do not include in this figure expenditures on employee health insurance programmes, as this should be included in employee benefits (indicator 6). Include a distinction between operating costs and investments.

(b) Identify the company’s cost of health care activities financed directly by the company as such, either through self-insurance or in operating the company’s own health care facilities.

(c) Identify the company’s cost incurred on working environment issues related to occupational safety and health (see “employee safety” under definitions below).

(d) Calculate the company’s total cost of employee health and safety by adding up the figures obtained in identification steps (a) through (c) in paragraph 53. (Note: Costs of training should not be included in this figure.)

58. **Presentation and disclosure:** The disclosure should include the details of compilation items (a), (b), and (c) in paragraph 53 above, as well as the total (item d).

2. **Work days lost due to occupational accidents, injuries and illness**¹³

59. **Background:** Work days lost due to occupational accidents, injuries and illness can reflect the degree to which the enterprise contributes to creating a healthy, safe and productive work environment.

60. **Definitions**

(a) Occupational injury: A non-fatal or fatal injury arising out of or in the course of work.

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¹³ This indicator is based on GRI indicator LA7, with modifications including a focus on LDR and fatality statistics.
(b) Occupational disease: A disease arising from the work situation or activity (e.g. stress or regular exposure to harmful chemicals), or from a work-related injury.

(c) Fatality: The death of a worker occurring in the current reporting period, arising from an occupational injury or disease sustained or contracted while in the reporting organization’s employ.

(d) Lost day: Time ("days") that could not be worked (and is thus "lost") as a consequence of a worker or workers being unable to perform their usual work because of an occupational accident or disease.

(e) Lost day rate: Refers to the impact of occupational accidents and diseases, as reflected in time off work by the affected workers. It is expressed by comparing the total lost days against the total number of hours scheduled to be worked by the workforce in the reporting period.

61. **Compilation**

(a) This indicator should provide a breakdown according to:

(i) The total workforce (i.e. total employees, plus supervised contract workers); and

(ii) Independent contractors working on site towards whom the reporting organization owes liability for the general safety of the working environment.

(b) Data on “lost days” should be based on the definitions under the national law of the country in which the lost days took place. In calculation of lost days, it should be noted: (i) whether “days” means “calendar days” or “scheduled work days”; and (ii) at what point the “lost days” count begins (e.g. the day after the accident or three days after the accident).

(c) State lost day rate (LDR) by calculating as follows:

\[
\text{LDR per 100 employees} = \frac{\text{No. of lost days}}{\text{Hours worked}} \times 200,000
\]

*Note:* The factor 200,000 is derived from 50 working weeks at 40 hours per 100 employees. By using this factor, the resulting rate is related to the number of employees and not the number of hours.

62. **Presentation and disclosure**

(a) Present the data used in compiling the lost day rate. The breakdown of data on total workforce and independent contractors may be presented in a table.

(b) Reasons for any significant variation between the indicators reported and those relating to previous periods should be explained.

(c) Report fatalities in the reporting period using an absolute number, not a rate.

**E. Government and community contributions**

1. **Payments to Government**

63. **Background:** Enterprises make a significant economic contribution to government finances in the form of taxes, royalties and other fees paid to Governments. This is particularly important for some industries which do not
have large payrolls or strong business linkages, and whose principal contribution to economic development is in the form of taxes and other payments to Governments.

64. **Definitions**

   (a) **Current tax** is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.\(^{14}\)

   (b) **Payments to the Government** exclude acquisition of government assets (e.g. purchase of formerly state-owned enterprises).

65. **Compilation**

   (a) All company taxes and related tax penalties cost at the national and local levels. This should include corporate tax, income tax, property tax, excise duties, value added tax, local rates and other levies and taxes, but exclude deferred taxes.

   (b) All royalties, license fees, and other payments to Government.

   (c) All fees paid included should be on a cash-paid basis.

   (d) Excluded from this figure should be penalties and fines for non-compliance issues unrelated to tax payment (e.g. environmental pollution).

   (e) Excluded from this figure should be any payments for government assets, e.g. the acquisition of a state-owned enterprise, government land, etc.

66. **Presentation and disclosure**

   (a) Present the total amount related to reporting year with a distinction between amounts *paid* to the Government and amounts *payable* to the Government.

   (b) Present the information, in conjunction with a breakdown of the major categories of payments (e.g. income taxes, customs duties, royalties, etc.).

2. **Voluntary contributions to civil society**

67. Many enterprises support the communities in which they operate through the voluntary donation of cash, goods and services. These direct contributions can result in significant positive contributions, for example, to the development of local infrastructure such as schools and hospitals, as well as the provision of emergency relief in times of natural disaster. This indicator reflects an enterprise’s voluntary contributions to the community.

68. **Definition:** Voluntary contributions are charitable donations and investments of funds in the broader community where the target beneficiaries are external to the company. These include contributions to charities, non-governmental organizations and research institutes (not related to the company’s commercial research and development), funds to support community infrastructure (e.g. education, medical and or recreation facilities) and direct costs of social programmes (including arts and educational events). The amount included should account for actual expenditures in the reporting period, not commitments.

\(^{14}\) The definition of current taxes is not restricted to income taxes, but also refers to excise duties, value added taxes, local rates, and other levies and taxes.
69. **Compilation**

(a) Voluntary contributions are recognized as an expense when they are paid and are not deductible for tax purposes.

(b) For infrastructure investments, the calculation of the total investment should include costs for ancillary, related or incidental goods and labour, in addition to capital costs. For support of ongoing facilities or programmes (e.g. an organization funds the daily operations of a public facility), the reported investment should include operating costs.

(c) The infrastructure investment excludes legal and commercial activities. Any infrastructure investment which is primarily driven by core business needs (e.g. building a road to a mine or factory) or to facilitate the business operations of the organization, should not be included. The calculation of investment may include infrastructure built outside the main business activities of the reporting organization, such as a school or hospital for employees and their families.

70. **Presentation and disclosure:** The total amount should be presented for the reporting period, together with an itemization of major contributions or categories of contributions (e.g. education, health and arts).

71. **Corruption**

**Number of convictions for violations of corruption-related laws or regulations and amount of fines paid/payable**

71. **Background:** Corruption is internationally recognized as an obstacle to economic development and a hindrance to international trade and investment. Corporations can make a positive contribution to respect for anti-corruption laws and international norms by ensuring that they are not involved in corruption. A basic measurable performance indicator in this regard is the number of legal infractions a company incurs as a result of corrupt practices. This indicator can provide useful information to stakeholders about legal liabilities and areas of the enterprise’s internal control that require attention.

72. **Definitions**

(a) Corruption: The Organization for Economic Cooperation and Development (OECD) defines corruption as the “active or passive misuse of the powers of public officials (appointed or elected) for private financial or other benefits”.

(b) Bribery: The offering, promising, giving or accepting of any undue pecuniary or other advantage to or by (a) a public official, at the national, local or international level; (b) a political party, party official or candidate; and (c) a director, officer, employee or agent of a private enterprise; in order to obtain or retain a business or other improper advantage, e.g. in connection with regulatory permits, taxation, customs, judicial and legislative proceedings.

(c) Extortion or solicitation: The demanding of a bribe, whether or not coupled with a threat if the demand is refused. “Bribery” as used in these rules shall include extortion.

73. **Compilation**

(a) Identify all convictions for violations of corruption related laws or regulations.
74. **Presentation and disclosure**

(a) The total number of convictions should be presented together with the total amount of fines paid and or payable.

(b) Additional information would be an itemization of individual fines or penalties, along with an indication of the particular regulation or law violated.

(c) The enterprise may also provide information about any actions taken in response to incidents of corruption, for example new or revised enterprise policies to prevent such incidents.

### III. Conclusion

75. In accordance with the agreed conclusions of the twenty-third session of the group of experts, the UNCTAD secretariat is presenting for consideration by the twenty-fourth session of ISAR this detailed work on measurement methodology with a view towards finalizing ISAR’s guidance on voluntary disclosures in this subject area. The group of experts may choose to recommend dissemination of this document, combined with the contents of TD/B/COM.2/ISAR/42, as a voluntary technical tool aimed towards improving the comparability and relevance of corporate responsibility reporting in annual reports. A technical tool such as this could be used by enterprises to improve their corporate reporting, by other organizations working on corporate responsibility reporting to further inform their work, and as a benchmark for research on corporate disclosures in this area.
Annex I

Additional definitions

Except where noted, the following definitions are taken from the IFRS glossary of terms produced by the International Accounting Standards Board.

Accrual basis: The effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

Cost: The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, when applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other IFRSs.

Expenditures: A decrease in an asset (usually cash) or an increase in a liability (often accounts payable) associated with the incurrence of a cost. The expenditures in an accounting period equal the cost of all the goods and services acquired in that period.

Expenses: Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Revenue: The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

15 The term “expenditures” is not defined by the IASB. This definition is taken from Anthony, Reece and Hertenstein (1995) Accounting Text and Cases, ninth edition.
Annex II

Additional references

References by indicator

1. Total revenues: Applicable accounting standards, such as International Financial Reporting Standards (IFRS) 18 and IFRS 7 on revenues and fair value, respectively, could be consulted.


6. Employee wages and benefits: Applicable accounting standards, such as IAS 19 on Employee Benefits, could be consulted. Ratio of male to female wages and benefits: The OECD Guidelines for Multinational Enterprises, Chapter IV Employment and Industrial Relations, Article d); ILO C111 Discrimination (Employment and Occupation) Convention (1958), Article 1.


8. Research or development expenditure and tangible assets: IAS 38.


13. Payments to Government: Applicable accounting standards, such as IAS 12 on Income Taxes; IAS 7 on Cash Flow statements; and IAS 19 on Employee Benefits, could be consulted.

Annex III

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The views contained in this document do not necessarily reflect those of the organizations with which the members of the ad hoc consultative group are affiliated.