

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**DISCLOSURE OF THE IMPACT
OF CORPORATIONS ON SOCIETY
CURRENT TRENDS AND ISSUES**



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Preface

The United Nations has recently undertaken the task of involving the business community in general, and transnational corporations (TNCs) in particular, in its efforts to solve the world's development problems. UN Secretary-General Kofi Annan has called on global business leaders to embrace nine universal principles of business conduct in the areas of human rights, labour standards and environmental practices. In July 2000, this led to the creation of the Global Compact initiative, whereby businesses commit themselves to making these universal principles an integral part of their activities.

Because of its focus on trade and development, UNCTAD has a key role to play in promoting the development dimension of business activities. TNCs can make a meaningful contribution to a nation's sustainable development through investment and job creation. However, it has frequently been demonstrated that large enterprises can also have negative effects on the communities in which they operate. Transparency as to corporations' environmental and social impact is necessary for better management of these issues.

UNCTAD and its Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) have been dealing with the issue of corporate transparency and accountability for the past 20 years. The accounting scandals that shook the business world in 2003 brought to the forefront the need for transparency and disclosure, as they generally serve to strengthen the bonds of trust among enterprises, investors and other stakeholders. This is true for both financial and non-financial information.

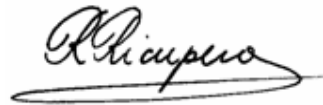
The Group's work on disclosure is directly related to new developments in corporate social responsibility. As public concern with enterprises' social impact rises, so does the number of initiatives to assess and report on this impact. Civil society and investors alike are pressing for social performance disclosure. Different groups have different needs, and this results more often than not in an unmanageable number of requests that enterprises, particularly those without large environmental and accounting departments, find difficult to meet.

A parallel can be made between this state of affairs and recent trends in environmental accounting. The Group of Experts began tackling this issue almost 15 years ago. Although its first efforts were received with a certain amount of scepticism, support from the accounting profession has grown steadily, and the work of the Group has been increasingly used. Thus, in 1998, it released its "Guidelines for Accounting and Financial Reporting of Environmental Costs and Liabilities", which provided the basis for the European Union's recommendations on environmental accounting.

A similar trend seems to be emerging today in the area of social accounting. There are no international or national standards of social accounting, and companies' disclosure efforts, although laudable, often amount to information-packed reports that are neither comparable nor fully transparent.

Transparency as to the impact of enterprises on society is a necessary step towards better management of this impact, and thus towards a greater contribution by the private sector to the

economic and social development of countries. This publication analyses current trends, initiatives and issues in the area of social reporting. It assesses the implications of these trends for accounting and for the traditional reporting model and discusses what steps could be taken to respond to the growing demand for transparency in the area of corporate social responsibility. I have no doubt that a wide array of readers will find it interesting and enlightening.

A handwritten signature in black ink, appearing to read 'Ricupero', with a long horizontal flourish underneath.

Rubens Ricupero
Secretary General of UNCTAD
26 August 2004

Content

Preface	v
Part I Disclosure of the impact of corporations on society: Current trends and issues	1
Report by the UNCTAD secretariat.....	3
Corporate social responsibility.....	4
What governs corporations' relations with society.....	6
Main international initiatives for CSR.....	6
Codes of conduct.....	6
International and national law.....	7
Corporate governance.....	8
Public pressure and reputational risk.....	9
Investors' pressure.....	10
Disclosure of corporate social responsibility	11
Recent trends in social reporting.....	12
Current voluntary corporate reporting initiatives.....	14
Major issues faced by preparers and users of reports.....	16
Purpose.....	16
Comparability of reports.....	16
Reporting medium.....	16
Materiality.....	17
Verification.....	17
Conclusion	18
Addendum to the UNCTAD secretariat report.....	22
Appendix 1: Examples of definitions of CSR.....	22
Private sector organizations.....	22
International organizations.....	22
Civil society organizations.....	23
Appendix 2: Examples of major international CSR initiatives.....	24
Appendix 3: Examples of reporting formats.....	26
Appendix 4: Additional information on the current state of sustainability reporting.....	28
Trends.....	28
Content.....	29
Verification.....	30
Appendix 5: Useful websites.....	30
Part II Proceedings of the UNCTAD/ISAR Workshop on Disclosure of the Impact of Corporations on Society.....	33
Summary of the UNCTAD/ISAR Workshop on the Disclosure of the Impact of Corporations in Society	35
Objectives.....	35
Speakers and participants.....	35
Main issues.....	35
Outcome.....	37
Economic power and social responsibility of very big enterprises: Facts and challenges.....	39
The weight of VBEs in the world economy.....	39
VBEs and the poorest countries: How wide is the gap?.....	41
Efficiency, ethics or politics? Will the structuring power of VBEs remain unbalanced by accountability (to be extended and modified).....	42
CSR and reporting for development	47
Drivers and institutions.....	47
Does CSR promote development?.....	48
Structural dimensions of underdevelopment.....	49

Contents

Scope of corporate social responsibility in developing countries	55
Executive summary	55
Introduction.....	56
CSR in the developing countries.....	56
Social investments in Bangladesh.....	58
Effective CSR extension modalities	61
Conclusion	63
Acknowledgements	63
Corporate social responsibility	65
Corporate social responsibility implementation	65
Corporate social responsibility impact on society	66
Benefits of corporate social responsibility.....	67
Recommendation.....	70
Towards a new social responsibility reporting model.....	70
Rationalization of reporting burden	72
Socially responsible investments	75
The OECD Guidelines for Multinational Enterprises	79
Corporate responsibility at the OECD	79
What are the OECD Guidelines?	79
The National Contact Point	81
Implementation in specific instances	81
Challenges.....	82
Corporate impact reporting.....	85
Business in the Community and the Business Impact Taskforce.....	85
Finding a core of relevant performance data	85
Stakeholder focus on the business.....	86
The Corporate Responsibility Index	87
Tools, guidance and standards for corporate social responsibility and sustainability reporting	89
The transparency imperative.....	89
The GRI mission.....	89
Why organizations report.....	90
The GRI Guidelines.....	91
The GRI family of documents.....	91
Assurance and other CSR tools.....	92
Challenges ahead	93
“Far beyond financial matters”	93
Assessment of corporations’ impact on society	95
African Institute of Corporate Citizenship.....	95
Challenges.....	96
Transparency and accountability.....	96
Benefits of reporting.....	97
An overview of UNILEVER’s approach to environmental and social responsibility.....	99
Our business	99
Global challenges/local actions.....	99
Global policies/local initiatives.....	99
Global reporting/local performance	101
The Co-operative Bank	103
The Co-operative Bank	103
The Partnership Approach.....	103
Partnership reporting	106
The Co-operative Bank’s performance	107

Part I

***Disclosure of the impact
of corporations on society:
Current trends and issues***

Report by the UNCTAD secretariat¹

Executive summary

There has been growing concern in recent years about the impact that enterprises have on society. A large number of initiatives have been taken by various stakeholders to assess corporations' social impact, and by enterprises to report on it.

Responding to these developments, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) at its eighteenth session identified corporate social responsibility as one of the emerging issues in the area of corporate transparency that could be discussed at future sessions. This followed the recommendations of the seventeenth session of ISAR for the UNCTAD secretariat to continue its efforts to promote sustainability reporting, which includes financial, environmental and social aspects of enterprises' activities.

This paper has been prepared by the UNCTAD secretariat in order to facilitate future consideration by ISAR of the re-emerging issue of corporate social responsibility and its implications for accounting and reporting. It provides an overview of the most often used definitions of corporate social responsibility and of the main international initiatives in this area. It analyses major factors that govern corporations' relations with society, such as codes of conduct, international and national law, corporate governance requirements, reputational risk, and public and investor pressure. Furthermore, it summarizes the current state of corporate social reporting and the major initiatives taken by various stakeholders to define an appropriate reporting model. Finally, it discusses some of the issues faced by preparers and users of social reports, such as reporting medium, purpose, format and comparability of social reports, and materiality and verification of data disclosed in those reports.

¹ TD/B/COM.2/ISAR/20, 15 August 2003.

Introduction

Concern about the impact of enterprises on society is a global one. The expectations of consumers, employees, investors, business partners and local communities as to the role of businesses in society are increasing. Guidelines, principles and codes are being developed for corporate conduct.

Governments, non-governmental organizations (NGOs) and local communities are demanding increased transparency and accountability, not only in enterprises' daily business operations but also with regard to how those operations affect society. With the recent financial and accounting scandals and their impact on capital markets and pensions, these concerns have become more acute.

Despite this widespread interest, it is still difficult to assess the impact of an enterprise on society, and even more so to benchmark it. Stakeholder groups design benchmarking tools, professional organizations carry out social audits, Governments legislate for mandatory social reports, rating agencies rank enterprises, and enterprises themselves publish an increasing number of reports on their social performance. These numerous efforts notwithstanding, stakeholders are not satisfied with the reports and demand ever more information on the impact that enterprises have on society, and how they align this impact with society's needs.

These numerous requests for information from investors and civil society impose a growing burden on enterprises, which struggle to respond to the demand. It is increasingly recognized that one of the solutions lies in harmonized corporate reporting, which would produce complete, comparable and verifiable information material for all stakeholders.

Corporate social responsibility

Definition

Society grants all legal entities, including enterprises, a "licence to operate" by spelling out their rights and duties in laws and regulations. Liberalization and globalization have enabled enterprises to extend their business reach, thus putting them in a position to have an even greater impact on society. Despite the existence at the international level of treaties, agreements and conventions, there is no set of international rules to regulate business activities and their impact on society. This means that the increased power of corporations must be balanced by a sense of ethical business practices. In a world where transnational corporations' economic power compares with that of countries,² Governments sometimes find it difficult to balance the need to protect their citizens with the need to attract foreign direct investment.³

Most definitions of corporate social responsibility (CSR) describe it as constituting actions whereby enterprises integrate societal concerns into their business policies and operations, including environmental, economic and social concerns. Compliance with the law is the minimum standard to be observed by enterprises. In countries where enterprises' legal obligations are non-existent or not spelt out in detail, it is important that enterprises still make an effort to meet societal expectations. The scope of corporate social responsibility encompasses the direct impacts of enterprises' actions as well as the spillover effects they may have on society. The extent to which enterprises can be held responsible for such externalities is still being debated.

Corporate social responsibility is very closely linked to the concept of "sustainable development". In 1987, the Brundtland Report found that the current model of economic development could not be

² The 800 largest non-financial enterprises in the world influence 50 per cent of the world's product. Estimation from the Swiss Observatoire de la Finance (<http://www.obsfin.ch>).

³ ActionAid, "Unlimited companies", 2003.

sustained in the long term, as it depletes natural resources and harms society. It defined “sustainable development” as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.⁴ This concept of sustainable development depends on three key components: environmental protection, economic growth and social equity. At the 1992 United Nations Conference on Environment and Development in Rio de Janeiro, the leaders of over 100 countries adopted Agenda 21, a blueprint for achieving sustainable development in the 21st century. Governments that agreed to implement this plan in their countries are monitored by the United Nations Economic and Social Council’s Commission on Sustainable Development. Agenda 21 described transnational corporations as playing a crucial role in the social and economic development of a country.⁵

Relevance to preparers and users of corporate reports

Societal expectations originate from a growing number of interest groups, including shareholders, employees, Governments, NGOs, consumers, and local communities in which businesses operate. A judgement of what constitutes “responsible behaviour” in a particular sector and location can be made only through a dialogue between stakeholders and the enterprises. Transparency and accountability are fundamental to this dialogue. Given the current state of distrust between society and enterprises, corporate claims of good behaviour are met with suspicion if they are not backed by comprehensive and verifiable information. Reporting faithfully on an enterprise’s impact on society helps rebuild trust by demonstrating that the enterprise is open and accountable for the impact of its actions. It also facilitates dialogue and allows stakeholders to identify the problems and design solutions that are acceptable to all parties. The collection of information for such reports can also give the enterprise a better insight into new market opportunities and help improve the management of risks related to the environment or society as a whole. This may in turn lead to better access to financial markets.

Users of accounts traditionally include directors of the board, executive directors, regulators, lenders and investors. Corporate social responsibility is becoming more relevant to them, as directors are under pressure from their investors to disclose in the accounts the impact of environmental and social expenditures, risks and liabilities on their financial performance. As the number of socially responsible investment funds grows, there is pressure to invest solely in enterprises that can demonstrate the integration of CSR into their operations. Since this type of information is increasingly becoming material to investors, companies need to be able to report on their environmental and social performance in a comparable and verifiable way.

Accounting for environmental and social performance is also crucial for the good management of these issues. It has been argued that improved environmental performance means increased operational efficiency and thus increased shareholder value.⁶ The positive link between social performance and financial performance is more difficult to prove, but a number of management theories try to establish it.⁷ For example, improved working conditions and involvement of employees in decision-making can increase productivity and the quality of products/services. This also reduces absenteeism. Improved work environments attract and retain staff, particularly skilled staff, with a consequent reduction in turnover, recruitment and training costs. Consumers also are sensitive to an enterprise’s reputation. If two companies produce similar products for the same price, the one with a good social and environmental track record could benefit from increased sales and a larger market share. Finally,

⁴ http://www.doc.mmu.ac.uk/aric/eae/Sustainability/Older/Brundtland_Report.html

⁵ <http://www.un.org/esa/sustdev/documents/agenda21/english/agenda21toc.htm>

⁶ UNEP/Sustainability/Business Case, “Buried treasure: Uncovering the business case for corporate sustainability”, 2001.

⁷ Ibid.

environmental and social performance can be properly managed only if it is assessed and compared over time.

What governs corporations' relations with society

Main international initiatives for CSR

Work has been carried out at the international level to better define the boundaries of corporate social responsibility. Guidelines for enterprises have been produced by the United Nations Conference on Trade and Development (UNCTAD), the International Labour Organization (ILO), and the Organization for Economic Co-operation and Development (OECD). The United Nations Global Compact is a coalition of United Nations (UN) agencies and enterprises that aim at promoting a selection of these guidelines. Other initiatives include the work carried out at the level of the European Union, which is still at a very early stage.

The existence of an increasing number of global conventions and guidelines for CSR and the growing general awareness of CSR issues in developed and developing countries help enterprises to integrate CSR into their everyday business and operations. The number and the diversity of the groups developing these initiatives show great creativity, but they are uncoordinated and so generate confusion. For example, some stakeholders' groups design new CSR tools that duplicate other existing ones, and fail to work on certain types of tools that are most needed but ignored by all. A recent survey of initiatives⁸ has demonstrated that a myriad of tools have been developed to help enterprises integrate CSR into their visions, policies and strategies, but hardly any have been devised to help enterprises report on their impact on society. This has generated confusion for enterprises that are faced with demands from so many initiatives.

Codes of conduct

There is no consensus on whether corporate social responsibility rules should be voluntary or mandatory. For a while corporate self-regulation and codes of conducts – designed by enterprises to define their environmental and social responsibilities – were seen as the way forward in CSR. The number of codes of conduct increased exponentially over the last decade.⁹ They are based on codes developed by UN agencies, the ILO, the OECD, Governments, industry and stakeholders' groups. However, codes developed by corporations are often limited in scope and application. They tend to be adopted by enterprises in which brand names and corporate image are important. Many enterprises have adopted a code of conduct in reaction to public criticism in developed country markets. These codes often focus on issues that concern the well-being of populations in home as well as host countries. There is a danger that these codes, if implemented uniformly, will have a damaging effect on certain societies, owing to fundamental cultural and economic differences. It can also be argued that the lack of monitoring of the implementation of codes decreases their usefulness in the adaptation of the way in which enterprises conduct business.¹⁰

The difference between a code that is merely a public relations exercise and one that allows real control over business operations lies in the transparency and effectiveness of its implementation and its verification. Most codes do not have a mechanism for accountability or follow-up.¹¹ The most

⁸ This survey, carried out in early 2003 by the World Business Council for Sustainable Development on behalf of the United Nations Global Compact, has not yet been published.

⁹ OECD, "Codes of Corporate Conduct: A Review of Their Contents", 2001. This review of 246 codes shows a great variety of content and degree of details in codes of conduct.

¹⁰ UNRISD, "Voluntary Approaches to Corporate Responsibility", 2002.

¹¹ OECD, "Making Codes of Corporate Conduct Work: Management Control Systems and Corporate Responsibility", 2001.

commonly used of these processes – the signature of executive officers – is used in less than 40 per cent of the cases. Mechanisms for “whistle-blowers” exist in only 20 per cent of cases and training for compliance in less than 15 per cent. Periodic review by managers happens in less than 3 per cent of cases and external verification even less frequently.¹² Given this poor record, it is increasingly recognized that voluntary codes of conduct are not enough to ensure a level playing field in corporate social responsibility.

International and national law¹³

At international and national levels, the legal framework in relation to corporate social responsibility is changing. The legal risk to enterprises with regard to their impact on people and the environment is growing and has a direct impact on the business. Insurers’ and investors’ perception of the legal risks faced by an enterprise can lead to higher insurance premiums and increased cost of capital. The potential liabilities can affect share prices. In this context, enterprises need to assess and manage this risk, and support the universal application of internationally agreed minimum standards – for example, in the area of environmental protection – thus creating a level playing field.

International law, through treaties, agreements, conventions and case law, covers issues such as environmental, consumer and health protection, labour and human rights, fair business practices, and corporate governance. Numerous labour and environmental conventions hold signatory countries responsible for ensuring the application of certain principles.¹⁴ The OECD Guidelines for Multinational Enterprises, although voluntary for enterprises, politically bind the signatory countries to set up national contact points (NCPs) through which enterprises can be investigated for not abiding by the Guidelines.¹⁵ However, NCPs have yet to function in an effective manner. The number of legislative initiatives undertaken is on the increase, owing to public pressure.

Certain national laws apply internationally. The United States’ Alien Tort Claims Act makes it possible for foreign citizens to lodge claims against American transnational corporations and American-based foreign parent companies for actions in violation of the law of nations or a treaty signed by the United States. Increasingly, principles of civil liability also give rise to litigation against parent companies of corporate groups.

At the national level, laws regulate the relationships between enterprises and society by ensuring the protection of shareholders as well as other stakeholders, including employees and consumers. Certain voluntary CSR initiatives such as codes of conduct included in contracts with suppliers can become legally binding as de facto minimum standards. Social labelling and certification schemes incorporated into supply chain contracts become binding.¹⁶ Published codes of conduct, enterprise reports and press releases may be scrutinized under laws on misrepresentation. Codes of conduct and public statements on an enterprise’s values can also constitute a “constructive obligation” as they indicate that the enterprise accepts certain responsibilities, thus creating a valid expectation on the part of stakeholders that these responsibilities will be fulfilled.

¹² Ibid.

¹³ This section largely derives from the International Institute for Environment and Development (IIED)’s report on “Legal Issues in Corporate Citizenship”, 2003.

¹⁴ The main ones include the ILO Labour Conventions, the Basel Convention on Hazardous Waste Disposal, the Convention on Biological Diversity, the Montreal Protocol on Substances that Deplete the Ozone Layer, the Vienna Convention for the Protection of the Ozone Layer and the United Nations Convention to Combat Desertification.

¹⁵ <http://www.oecd.org/EN/document/0,,EN-document-28-nodirectorate-no-11-37318-28,00.html>

¹⁶ See Loi visant à promouvoir la production socialement responsable. Available at http://www.cass.be/cgi_loi/legislation.pl

There are also some legislative developments in the area of social reporting. Certain Governments feel the necessity for increased disclosure and transparency in the area of CSR. Their requirements are generally partial in their coverage and mainly environmental or labour-related. France¹⁷ and Belgium¹⁸ require enterprises and subsidiaries located on their national territory to disclose statistical information on their workforce and its fluctuation, remuneration, health and safety, working conditions, training, labour relations, living conditions, and measures taken in favour of employment. France has also required since 2002 that all enterprises listed on the Premier Marché report on employee, community and environmental issues, how corporations' subsidiaries respect the ILO fundamental conventions and how corporations promote these conventions among their subcontractors. In the Netherlands, following a request by the Government, the Council on Annual Reporting has published guidelines for including CSR information in the annual directors' report, as well as for separate CSR reporting. Denmark, the Netherlands, Norway and Sweden, have introduced mandatory requirements for environmental reporting for certain enterprises.¹⁹

The United Kingdom is considering this issue as part of its revised Company Law,²⁰ although no decision has yet been made. The current proposal includes mandatory operating and financial review (OFR) which would cover an enterprise's objectives, strategy and drivers of performance; a review of the business; the dynamics of the business; the enterprise's approach to corporate governance (values and structure); an account of the key relationships on which its success depends; the enterprise's policies and performance on environmental, community, social, ethical and reputational issues; and receipts from and returns to shareholders. The United Kingdom Pensions Act of 1995²¹ requires pension funds to disclose "the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realization of investments". Australia, Belgium, Germany and Sweden have introduced, or are in the process of introducing, broadly similar legislation on socially responsible investment.

Corporate governance

Corporate governance has been catapulted to the top of the political and business agenda by the recent accounting and management scandals such as Enron, WorldCom, Tyco, Ahold and others. If effective, improved corporate governance would ensure that corporate leadership is efficient, honest, responsible and accountable. Although it is still argued by some that enterprises are responsible solely to their shareholders, international corporate governance guidelines increasingly recognize that enterprises need to consider all their stakeholders, thus taking a step towards the integration of CSR issues into the governance of an enterprise. Principles of corporate governance agreed among OECD countries – the OECD Principles of Corporate Governance²² – state that the Board of Directors (BoD) should ensure that the enterprise is in compliance with applicable laws, and is expected to take into account various stakeholders' interests, including those of employees, creditors, customers, suppliers and local communities.²³ However, it seems that not all BoDs take into account stakeholders' interests while performing their primary functions, which include guiding corporate strategy and setting performance objectives. A recent survey of 500 businesses in the United Kingdom found that only four out of 10 boards discuss social and environmental issues, only a third have a board member who has an

¹⁷ http://www.dgcl.interieur.gouv.fr/bases_juridiques/bilan_social/accueil_bilan_social.html

¹⁸ http://www.bnb.be/BA/F/P1_00.htm

¹⁹ P. Scott, "Reporting all over the world", *Environmental Finance*, December 2000 – January 2001, pp. 36–37.

²⁰ UK Department of Trade and Industry (DTI), "Modern Company Law: Final Report", 2001. Available at http://www.dti.gov.uk/cld/final_report/index.htm

²¹ http://www.hmsso.gov.uk/acts/acts1995/Ukpga_19950026_en_1.htm

²² Other major works on corporate governance include the Report of the Cadbury Committee on the Financial Aspects of Corporate Governance, the King Report on Corporate Governance for South Africa and the Commonwealth Association for Corporate Governance Guidelines.

²³ OECD, "OECD Principles of Corporate Governance", 1999.

environmental remit and only a fifth have one with an interest in social issues.²⁴ Boards are also responsible for ensuring that appropriate systems of control are in place, in particular those that monitor risk, including potential environmental and social liabilities.

Information is a major concern for BoDs. Board members must have access to accurate, timely and relevant information to support their decision-making. Also, they are in charge of overseeing the process of disclosure to and communications with stakeholders, which helps to improve public understanding of the structure and activities of the enterprise, corporate policies and performance with respect to environmental and ethical standards, and the enterprise's relationship with the communities in which they operate. A number of pronouncements, such as the OECD Principles, the Commonwealth Association for Corporate Governance (CACG) Guidelines,²⁵ the King Report on Corporate Governance 2002²⁶ and ISAR's Transparency and Disclosure Requirements for Corporate Governance stress the importance of communicating with stakeholders. They recommend that enterprises disclose financial and non-financial information, including policies on business ethics and the environment, governance structures pertaining to those policies, foreseeable risk factors, issues regarding employees and other stakeholders, performance in connection with environmental and social responsibility and the impact of this performance on the enterprise's sustainability. These requirements, although a first step towards CSR reporting, are far from fully satisfying the demand for CSR information.

Some of the major stock exchanges require or are considering requiring disclosure of non-financial data on listed enterprises' social and environmental policies and related management systems, as well as on corporate governance. The Australian Stock Exchange (ASX) requires all entities to include in their annual report a statement disclosing the extent to which the enterprise has followed the best practice set by the ASX Corporate Governance Council.²⁷ The New York Stock Exchange (NYSE) submitted to the Securities and Exchange Commission (SEC) in April 2003 a rule amending its corporate governance proposals, which includes new corporate governance standards.²⁸ These recommendations are currently under SEC review.

Public pressure and reputational risk

The emergence of powerful NGOs, coupled with progress in the area of information technology, means that cases of social irresponsibility make front-page news, thus increasing the enterprises' reputational risk. The business community recognizes reputation as a valuable asset since it affects the relationship of the enterprise with its customers, employees and investors. Managers need to take into account that any wrongdoing anywhere in the world can be transmitted to a worldwide audience, and impact on sales, market share, staff turnover, access to capital and market valuation of their enterprise. It is all the more important to assess and manage reputational risk, since a good reputation is easily tainted and difficult to restore. Arthur Andersen's loss of reputation in the wake of the Enron scandal cost the enterprise its very existence.

Many of these NGOs demand transparency and accountability on the part of enterprises. One of the most high-profile examples is the International Right to Know Campaign (IRTK), a United States-based coalition of more than 200 environmental, labour, social justice and human rights organizations.

²⁴ IPPR, "What's on the agenda? How UK directors contribute to social and environmental objectives", 2002. Available at <http://www.ippr.org/publications/index.php?book=318>

²⁵ <http://www.combinet.net/governance/finalver/cacg.htm>

²⁶ <http://www.cliffedekker.co.za/literature/corpgov/index.htm>

²⁷ <http://www.shareholder.com/visitors/dynamicdoc/document.cfm?CompanyID=ASX&DocumentID=364&pagenum=1&keyword=Type%20keyword%20here>

²⁸ http://www.nyse.com/pdfs/corp_recommendations_nyse.pdf

This campaign requires enterprises based in the United States or traded on American stock exchanges, as well as their foreign subsidiaries and major contractors, to disclose information on overseas operations along the lines of the United States Emergency Planning and Community Right to Know Act (EPCRA) and other American disclosure standards.²⁹

The Publish What You Pay (PWYP) campaign, initiated by George Soros and a coalition of 110 NGOs, demands that Governments, stock market regulators and international accounting standards require international oil, gas and mining enterprises to publish net taxes, fees, royalties and other payments made to Governments of countries in which they operate. The G8 Governments agreed in June 2003 to pilot such an initiative.³⁰ At the public hearing on PWYP at the European Parliament in June, the Committee on Development and Cooperation declared its support for a mandatory approach to delivering transparency of oil, gas and mining company payments to national Governments.³¹

Investors' pressure

Institutional investors, either for ethical reasons or because they are concerned with their investments' capacity to create and preserve shareholder value, take an increasing interest in enterprises' social and environmental performance and risk management. A recent study investigating the relationship between doing business ethically and financial performance showed that enterprises committed to ethical behaviour performed better financially over the long term than enterprises lacking that commitment.³² Investment decisions are based on corporate reports, rating agencies' social and environmental screening, and sustainability indexes such as the KLD Domini 400 Social Index, the Dow Jones Sustainability Index or the FTSE4GOOD Index. These indexes track the financial performance of enterprises that have made sustainability a key driver of business strategy.

The performance of sustainability indexes indicates that investors value more highly companies that are less exposed to social, environmental and ethical risks. The Domini 400 Social Index, monitoring the performance of 400 US companies, has outperformed the Standard & Poor 500 by more than 1 per cent on an annualized return basis and on a risk-adjusted basis since its inception in May 1990.³³ The Dow Jones Sustainable Index (DJSI), which monitors 310 of the largest companies from 23 countries, has grown by 180 per cent since 1993 compared with 125 per cent for the Dow Jones global Index over the same period.³⁴ Since its launch in 1994, it has also outperformed the FTSE World Index by 17 per cent.³⁵

The number and size of ethical investment funds is increasing, although they still represent a small proportion of total managed equity. Socially responsible investing (SRI) is a growing trend that unites investors that are pursuing financial as well as social returns from their investments. Total assets involved in social investing grew from \$40 billion in 1984 to \$639 billion in 1995, and to over \$2.32 trillion in 2001.³⁶ In the United States, SRI grew between 1999 and 2001 in an otherwise depressed

²⁹ "International Right To Know: Empowering Communities Through Corporate Transparency", AFL-CIO, Amnesty International USA, EarthRights International, Friends of the Earth, Global Exchange, Oxfam America, Sierra Club, Working Group on Community Right to Know, 2003. Available at <http://www.irtk.org/irtkreport.pdf>

³⁰ "Fostering Growth and Promoting a Responsible Market Economy: A G8 Declaration", 2003, Evian. Available at <http://www.g7.utoronto.ca/summit/2003evian/growth.html>

³¹ <http://www.publishwhatyoupay.org>

³² Institute of Business Ethics, "Does Business Ethics Pay?", 2003.

³³ <http://www.domini.com/Social-Screening/Non-US-Operations/index.htm>

³⁴ <http://www.sustainability-indexes.com>

³⁵ J. Fuller, "Banking on a good reputation", *FTfm*, 21 July 2003: 6.

³⁶ Investment assets residing in professionally managed portfolios utilizing one or more of the following investment strategies: screening, shareholder advocacy and community investing.

market. Whereas during the first 9 months of 2001 the total amount invested in mutual funds dropped by 94 per cent, there was only a 54 per cent drop for socially screened funds.³⁷ In Western Europe, SRI has achieved 100 per cent growth rates in recent years, although it still represents less than 1 per cent of total managed equity assets.³⁸ The trend in SRI funds is to shift from negative screening (i.e. excluding tobacco, alcohol, arms, etc.) to positive screening whereby investors support enterprises that produce or use environmentally friendly products or production methods and engage in socially responsible business practices. Many of these screening methods take into account internationally agreed principles such as the OECD Guidelines for Multinational Enterprises, the Declaration of Human Rights and the ILO Principles.³⁹

Investor pressure can take forms other than selective investing. Shareholder activism is another, growing tactic. As part owners of publicly traded enterprises shareholders can initiate dialogue with managers through letters or meetings, and file shareholders' resolutions. Shareholders' resolutions are proposals introduced by shareholders, individually or in groups, that are discussed and voted upon during the enterprise's annual meeting. Proposals have to receive 50 per cent of the votes for the management to comply with them. Resolutions related to social or environmental issues usually do not achieve such a result, but they contribute to raising awareness, attracting media attention and increasing pressure on executive managers.⁴⁰ It is difficult to assess the impact of shareholders' resolutions as enterprises can choose to implement the changes proposed by the shareholders without acknowledging the pressure they have been under to do so.⁴¹

Banks also are awakening to reputational risk. Four large banks – ABN Amro, Barclays, Citibank and WestLB – have drafted the “Equator Principles” on project financing in collaboration with the World Bank's International Finance Corporation. These principles are social and environmental guidelines for project finance in emerging markets, and include safeguards ranging from environmental assessment and natural habitats to indigenous peoples and child and forced labour. Five other banks⁴² have recently agreed to commit themselves to these principles, with another four still considering whether to do so.⁴³

Disclosure of corporate social responsibility

Enterprises are under increasing pressure to report on the impact they have on society and on how they manage this impact. Their coverage is much wider than just employment issues. Such reports carry a variety of labels, but they are most often called environmental and/or social reports, or sustainability reports. A sustainability report is more comprehensive than an environmental and/or a social report, first because it includes the economic impact of the organizations, and second because not only does it assess the enterprise's impact on society and compare its performance over the years, but also it assesses the sustainability of the enterprise's operations and products in relation to the development of society.

³⁷ Social Investment Forum, “Report on socially responsible investing trend in the United States”, 2001.

³⁸ M. Kiernan, “Making SRI mainstream”, 2003.

³⁹ <http://www.socialfunds.com/education/index/cgi>

⁴⁰ <http://www.foe.org/international/shareholder/index.html>

⁴¹ See <http://www.socialfunds.com/news/print.cgi?sfArticleId=982>

⁴² Crédit Lyonnais, Credit Suisse First Boston, Westpac Banking Corporation, Rabobank and HVB.

⁴³ D. Sevastopulo, “Banks adopt ‘Equator Principles’”, *Financial Times*, 4 June 2003.

Recent trends in social reporting

Modern social accounting first attracted the attention of Governments, businesses, academics and professional accounting bodies in the first half of the 1970s.⁴⁴ This widespread interest withered over the second half of that decade, only to re-emerge in the wake of environmental disasters such as Bhopal and Exxon Valdez. Enterprises have published an increasing number of environmental reports over the last 10 years. While enterprises that have a large environmental footprint were among the first to report on their environmental performance, environmental reporting has gradually caught on with other enterprises. This trend, triggered by the public's concern for the environment, has been supported by the development of laws and regulations that require enterprises to report on their environmental performance in countries, for example Australia, Canada, Denmark, the Netherlands, Norway, Sweden and the United States. Many guidelines on the structure and content of environmental reports were elaborated in the early 1990s. ISAR published guidelines on Accounting and Financial Reporting for Environmental Costs and Liabilities, based on best practices, to ensure that standards setters did not adopt different solutions for the same problems. ISAR also created a set of five core eco-efficiency indicators to help harmonize internationally the assessment of how the environmental performance affects the financial results of an enterprise. International organizations such as the International Auditing Practices Committee of the International Federation of Accountants, the Accounting Advisory Forum of the European Union and the European Federation of Accountants investigated the relationships between environmental and financial reporting.⁴⁵ Despite a general move towards a standard format for reporting, the variety in the reports is such that benchmarking is still difficult.

As much work has already been done on environmental accounting and reporting by ISAR as well as by other organizations, the rest of this paper will focus on the social components of reports.

Over the last five years, other social topics have been added to environmental issues. Today, environmental reports account for 64 per cent of the total number of social reports. Again, this evolution has been triggered by stakeholders' concern, and is supported by an increasing number of laws, regulations and guidelines. A survey of the top 250 enterprises worldwide and the top 100 in 19 countries shows that fewer than 500 of them produced an environmental, social or sustainability report in 2002.⁴⁶ This represents less than 1 per cent of the 65,000 transnational enterprises in the world.

Reporting is not limited to heavy-impact sectors such as chemicals and mining, but is also found in most economic sectors, including food and beverages, communication and media, transport, and utilities. Social reporting is not restricted to Western Europe and North America but is emerging in Latin America, Eastern Europe, Africa and Asia.

Enterprises from emerging economies that report on environmental and social issues say that they do so because of their commitment to transparency and accountability, and because measuring their impact on society helps them manage it. These enterprises are subject to less pressure to report from Governments and domestic investors than those based in Western countries. Some even complain that they do not receive any feedback from civil society organizations in their own countries, although this is a complaint that they share with Western-based enterprises. The lack of pressure from developing country Governments also benefits subsidiaries of transnational corporations, of which only a few report on their local engagements and impact on local communities. External pressure to report mainly

⁴⁴ R. Gray, "Current developments and trends in social and environmental auditing, reporting and attestation: A personal perspective", 2000.

⁴⁵ KPMG, "International Survey of Environmental Reporting 1996", 1997.

⁴⁶ KPMG, "International Survey of Corporate Sustainability Reporting", 2002.

comes from stock market authorities in Europe or North America and from socially responsible funds.⁴⁷

The content and the quality of social reports vary greatly, from public relations tools to sophisticated reports of real efforts to integrate societal concerns into everyday business operations.⁴⁸ A recent quality assessment of 100 social reports from around the world concludes that although the average number of pages has increased by 45 per cent, the reports' quality has not increased compared with the quality level in 2000.⁴⁹ The content of social reports is generally analysed in terms of economic, environmental and social issues. Economic performance reporting includes wages and benefits, productivity, job creation, outsourcing, research and development, and investments in training and other forms of human capital – all of which can be quantified. Environmental issues include the impact of production processes, products and services on air, land, biodiversity and human health. The quality of reports on environmental issues, thanks to the existence of a number of recognized environmental metrics such as ISAR's eco-efficiency indicators, is generally better than the quality of reports on social issues.

Social issues typically include workplace health and safety, employee satisfaction and corporate philanthropy, as well as labour and human rights, diversity of the workforce and supplier relations. Social disclosure often has an internal focus, with employee data, health and safety, and staff surveys being more commonly reported than data covering local community and wider society issues.⁵⁰ For those social issues for which it is more difficult to set a quantifiable performance metric, the reporting remains scarce and qualitative. For example, only a minority of reports cover human rights, supplier relations, child labour, freedom of association, collective bargaining, fair trade, working hours, the employment of country nationals, how much and where taxation is paid, and funding of pension schemes. Provided that they do not threaten the enterprise's competitive position, disclosure of these issues would be of great interest to employees, customers, host country Governments and socially responsible investors.

Some enterprises report on stakeholder dialogue, which usually takes the form of inclusion in their report of stakeholder statements – sometimes negative but mostly positive – staff surveys, and community panels and forums.⁵¹ However, most enterprises seem to consider stakeholder dialogue as an end in itself, and rarely do reports show a link between stakeholder engagement and enterprises' decision-making processes.

Despite the lack of internationally accepted standards for providing assurance on social reports, enterprises are increasingly seeking external assurance for their reports. A significant number of reports were verified in 2002 by a third party – respectively 29 per cent and 27 per cent for GFT250 and Top 100 enterprises – and verification was carried out by a major accountancy firm in 65 per cent of cases.⁵²

⁴⁷ SustainAbility/UNEP, "Trust Us: The Global Reporters 2002 Survey of Corporate Sustainability Reporting", 2002.

⁴⁸ A number of assessments of social reports have been carried out by KPMG, UNEP/SustainAbility, ACCA, PricewaterhouseCoopers and others. See bibliography.

⁴⁹ SustainAbility/UNEP, "Trust Us: The Global Reporters 2002 Survey of Corporate Sustainability Reporting", 2002.

⁵⁰ According to KPMG's survey, social topics are addressed at the following rates in GFT250 reports: community involvement, 97 per cent; health and safety, 91 per cent; equal opportunity/workforce diversity, 88 per cent; employee satisfaction, 67 per cent; human rights, 55 per cent; supplier relations, 39 per cent; child labour, 36 per cent; freedom of association, 27 per cent; fair trade/international development, 18 per cent; corruption, 15 per cent.

⁵¹ KPMG, "International Survey of Corporate Sustainability Reporting", 2002.

⁵² Ibid.

Current voluntary corporate reporting initiatives

A growing number of initiatives aimed at assessing the impact of enterprises on society are constantly emerging. Specialized consultancies offer their services to enterprises wanting to produce a social report. The methodologies used by these consultancies all differ from one another, which ensures that they keep an edge on the competition. A multitude of CSR performance benchmarking programmes have been developed by stakeholder groups, in addition to rating agencies and sustainability index publishers. These are swamping enterprises with questionnaires. A recent survey of European enterprises shows that although over 80 per cent of investor relations practitioners believe that CSR reporting is a central part of a good investors' relations programme and 75 per cent of them think that CSR is important in a bull as well as in a bear market, the large majority recognizes that questionnaire fatigue is a real problem.⁵³ Enterprises are asking for standardization of the information requested from them.

A few stakeholder initiatives, generally including representatives from the private sector, aim at setting reporting frameworks and indicators that could help to harmonize information requirements. Although they individually contribute to defining certain areas of social reporting, their variety and limited scope work against the establishment of uniform formats and content. They include the Global Reporting Initiative (GRI), the Sustainability Reporting Project of the World Business Council for Sustainable Development (WBCSD), the Business in the Community (BITC) Corporate Impact Reporting Initiative and AccountAbility's AA1000 series. As the purpose of this report is to review more particularly those recent initiatives that concentrate on the social aspects of reporting, initiatives on environmental reporting are not included here.

The GRI guidelines⁵⁴ contain reporting principles to be followed by preparers, specify report content and suggest reporting indicators, including 50 core environmental, social and economic indicators and 47 additional ones. The "core" indicators are considered to be significant to most enterprises and material to most stakeholders.

The GRI has made a point of being as inclusive as possible in its deliberations, and any interested and committed party could join and participate in the development of the guidelines. Consequently, it has proved difficult to limit the number of indicators. Each of the GRI's technical and governance bodies included representation from business, civil society, accountancy and labour, from various regions – although few developing countries have participated.

The number and the diversity of indicators have raised questions in the business community about the cost of producing a report in accordance with the guidelines.⁵⁵ It is also argued that the large number of indicators impairs the readability of the report. As a result, most "GRI reporters" choose to use indicators that they feel that are most relevant to them. A number of indicators are in fact a simple disclosure of policies and practices. Apart from the evident completeness and comparability problem this poses, the fact that not all selected indicators have a clear link to sustainable development or even performance allows enterprises using the guidelines to produce reports that do not address their impacts on society. There are also enterprises that argue that there is a danger that sensitive proprietary information could be disclosed via some of the indicators. In response to these criticisms, the GRI answers that the guidelines are still evolving. It is learning from its own experience and from

⁵³ Investors Relations Society, <http://www.ir-soc.org.uk>

⁵⁴ <http://www.globalreporting.org/>

⁵⁵ By way of comparison, an SME seeking a public listing in Germany would have to pay at least \$100,000 to produce the necessary financial information, most of which would already be in its books. If SMEs had to start to collect non-financial information as well, the costs could be prohibitive, particularly since no methodology is yet agreed and companies are left to themselves to compile and report their indicators.

stakeholders' comments, and its approach is being refined by the development of sectoral standards. To date, 290 organizations refer to the guidelines in their reports, but only eight report "in accordance" with the guidelines.⁵⁶ Such references present another danger in that enterprises could mislead users into thinking that enterprises are complying with the guidelines.

Other initiatives are less comprehensive in scope and tackle only a particular aspect of social reporting. For example, the WBCSD,⁵⁷ an organization representing the international business community, runs the Sustainability Reporting project, which has led to the development of a web-based reporting platform to give guidance to member enterprises in their compilation of sustainable development reports. The users of this platform can find guidance on reporting, monitoring and measuring, as well as an inventory of best practice reports, including triple bottom line, ethical and social, environmental, and health and safety reports. This tool does not, however, provide a reporting framework. Because this initiative informs the user about what is being done by a limited number of reporters rather than prescribing a specific reporting method, it has the potential to generate greater reporting diversity among reporters.

BITC is a non-profit organization based in the United Kingdom with about 700 members, including 75 of the United Kingdom's FTSE 100 enterprises.⁵⁸ BITC's Corporate Impact Reporting project recommends a set of 55 core indicators by which an enterprise's impact on society can be measured. Efforts were made to include information that is material. The indicators are subdivided into sets of indicators related to the market place, the environment, the workplace, the community and human rights. These indicators are accompanied by a framework to measure and report on responsible business practices. BITC stresses that this reporting methodology provides a picture of enterprises' CSR activities and performances, but does not allow for comparison and benchmarking. Some of its core indicators have been criticized by some enterprises for being irrelevant to their particular sectors, and so far only twenty UK-based enterprises participate in this initiative.

The Institute of Social and Ethical Accountability (or AccountAbility) is a UK-based organization.⁵⁹ Members include enterprises, NGOs, business schools and service providers. It promotes best practices in social and ethical accounting, auditing and reporting, and develops standards and accreditation procedures. The AA1000 is a tool for social and ethical accounting, auditing and reporting. The AA1000 Framework was established in 1999 to provide guidance on how an organization can improve its accountability and establish effective stakeholder engagement. Through training and dialogue, enterprises are encouraged to define goals and targets, measure progress made against these targets, audit and report on performance, and develop feedback mechanisms. The AA1000 Framework, now known as the AA1000 Series, was extended in 2002 to include specialized modules for accountability practitioners such as those on assurance. However, the AA1000 Series has not been recognized by internationally agreed standard-setters.

⁵⁶ Organizations that wish to identify their report as prepared in accordance with the 2002 GRI Guidelines must meet five conditions:

1. Report on the numbered elements in Sections 1 to 3 of Part C.
2. Include a GRI Content Index as specified in Section 4 of Part C.
3. Respond to each core indicator in Section 5 of Part C by either (a) reporting on the indicator or (b) explaining the reason for the omission of each indicator.
4. Ensure that the report is consistent with the principles in Part B of the Guidelines.
5. Include the following statement signed by the board or CEO: "This report has been prepared in accordance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organisation's economic, environmental, and social performance."

⁵⁷ <http://www.wbcsd.ch/templates/TemplateWBCSD4/layout.asp?MenuID=1>

⁵⁸ <http://www2.bitc.org.uk/index.html>

⁵⁹ <http://www.accountability.org.uk/>

Major issues faced by preparers and users of reports

Purpose

Preparers of reports can be divided into two groups. First are those that use international guidelines pertaining to corporate social responsibility (see “Main international initiatives for CSR” above) to define the content of their social reports or seek the help of professional auditors or consultancies that focus on making the report a monitoring and management tool. Second are those that outsource the task of producing their reports to consultants whose core competency is in communication. The number of enterprises offering reporting services is growing.

The methodology used to produce a social report could be an indicator of the level of commitment on the part of enterprises to use the reporting exercise as a tool to assess and modify their business operations in order to improve their impact on society. It is important that when an enterprise aims at modifying its environmental and social impact, it analyses its current impact, sets targets and puts in place management systems that include monitoring and reporting, just as it does for the financial aspects of its business. Reporting to external stakeholders should not be an end in itself but merely the reflection of the enterprise’s business processes and their results. Currently, many environmental and social reports develop the right rhetoric on the responsibility of enterprises to society and its importance to the sustainability of their operations, but very few report on the management systems that are – or should be – in place to support and implement this goal and their impact on performance.

Comparability of reports

Each enterprise’s social report has its own format and substance, depending on the approach chosen by the reporting enterprise, and its perception of who its stakeholders are and of what their needs are. Many reports try to provide all interest groups with all the information they require in the same document. This leads to a mass of diverse information, which makes it difficult to have a clear picture of an enterprise’s values, commitment to these values and consequent impact on society. It also makes it difficult to compare performances among enterprises.

In order to illustrate the variety of reporting formats, we have compared three examples of the most recent social reports published by two oil companies with years of environmental reporting experience and by a bank which was named best sustainability report producer by the Association of Certified Chartered Accountants. Differences in the very names of the reports reviewed indicate the variety in the three enterprises’ approaches to social reporting. The number of pages, which ranges from 34 to 102, highlights the dilemma that corporations face – between reporting in an exhaustive manner and producing a report that is quickly and easily read. All three enterprises use quantitative indicators to report on their performances, but some accompany them with lengthy explanations, which inform the reader in depth but also multiply the number of pages he or she has to get through to form an opinion on the enterprise’s overall performance.

The lack of comparability of reports increases investors’ need for benchmarking tools such as rating agencies. The amount of information required by these agencies and the multiplication of questionnaires to be filled in by enterprises tie up a growing part of their resources.

Reporting medium

Most social reports are produced as stand-alone reports, distinct from the annual financial reports. This indicates a divide in the preparers’ minds between the interests of investors and those of other stakeholders, and between financial performance and environmental and social performance. The distribution and the readership of social reports are uncertain. In an effort to reach out to as many stakeholders as possible, many reporters publish their social reports on their website in a portable

document format (pdf) – readers can save and keep the report in its electronic format and make a printed copy of it. Although it still excludes those stakeholders who do not have access to the Internet, this method substantially increases the potential readership while keeping distribution costs low. A growing number of enterprises now publish their reporting information on web pages only. This method has the advantage of enabling enterprises to update their performance information instantly. On the other hand, it decreases the comparability of the data provided, and all information published cannot be verified professionally. From the point of view of the readers, websites can make access to information more difficult and confusing than reports, particularly in the case of a large website with many levels. The Association of British Insurers (ABI) advocates in its Disclosure Guidelines on Socially-Responsible Investment 2003⁶⁰ that disclosure of social, environmental and ethical matters “should be made in the annual report, and not separately as part of the summary accounts or on a web site dedicated to social responsibility”. The ABI views this as a minimum requirement that does not impose an unnecessary burden on enterprises.

Materiality

Corporate reporting should be comprehensive and take into consideration all material aspects of business operations. Traditionally, corporate reports seem to focus on quantifiable parameters that go into the financial statements. Reporting on the impact of enterprises on society involves various qualitative parameters. This problem mainly affects social reporting, as environmental indicators have been elaborated by a number of organizations, including ISAR.

The task of establishing a materiality threshold becomes more complex owing to the variety of qualitative indicators that need to be taken into consideration for social reporting. The varied readership of such reports leads to different information demands. Most reporting guidelines state that the first step an enterprise must take towards social disclosure is to define who its stakeholders are, and establish a dialogue with them in order to determine what information is material to them. This dialogue can take place within the day-to-day business, as some departments in the enterprise are already in contact with stakeholders such as investors, customers or the local community. Stakeholder dialogue can also take place through international, national or industry initiatives.

Enterprises’ efforts to respond to all stakeholders’ demands lead to the publication of indiscriminate information, and thus to a lack of readability of social reports. The specific information needs of different audiences could be better addressed through other communication channels. Reports should contain only information that is material to most or all of the stakeholders. In order to make this possible, the definition of materiality may need to be explored to reflect investors’ new environmental and social concerns, and to include stakeholders’ information needs. It is important, however, to consider the issue of confidentiality of information. Just as in financial reporting practices, social reporting should not lead to the disclosure of information that could jeopardize the competitive position of the enterprise.

Verification

Verification of environmental and social reporting is necessary for it to be credible. As in financial accounting, it must be done by competent and independent auditors who were not involved in the production of the environmental and social accounts. The International Federation of Accountants’ International Standard on Assurance Engagements is applicable to non-financial assurance engagements, but further specific standards for verifying social reports need to be developed. As there are no internationally accepted standards for providing assurance on social reports, verification methods are defined on a case-by-case basis. A few organizations, such as the Fédération des Experts

⁶⁰ http://www.ivis.co.uk/pages/gdsc7_1.PDF

Comptables Européens,⁶¹ the Global Reporting Initiative and AccountAbility, attempt to give guidelines on verification. A large proportion of reports are audited by certification bodies, or consulting or technical firms, although in the majority of cases verification statements are signed by one of the major accounting firms.

In the quest for credibility, report preparers increasingly have recourse to verifiers. However, the lack of audit standards for non-financial information is a major hindrance to that effort. A 2002 survey⁶² shows that the choice of verifier depends on the audience. Enterprises that target their shareholders choose to employ a large accountancy firm. When the favoured audience is the stakeholders, enterprises prefer to use the services of specialist environmental and social consultancies, or NGOs and “celebrities” in the sustainability field. The choice between celebrity endorsement and specialized consultancy verification depends on the willingness of the enterprise to question the effectiveness of its management processes and learn how to modify them. Traditional auditors focus on the accuracy and reliability of data and include detailed disclaimers perhaps because of their professional liabilities, but do not provide the same learning opportunities as specialized consultancies do. On the other hand, their methodologies are more uniform than those of consultancies, and they are skilled at evaluating internal control systems.

Verifiers need to understand the business operations as well as environmental and social issues, and have genuine independence, and a robust and transparent approach that allows an enterprise to learn while delivering external credibility. This can be achieved by multidisciplinary teams. Guidelines are needed for the verification procedure to be followed by external experts and on the preparation of the reports.

Conclusion

Governments and policy makers need to be able to assess the impact of enterprises on society in order to give them licence to operate and ensure that the benefits outweigh the costs. The first step is to determine what information is needed and to ensure that they receive this information in a regular and consistent manner. This report reviewed the various factors driving enterprises to increasingly integrate social concerns in their business operations, and to report on their social performances. These forces are deep rooted and likely to last. The report then examined the current state of social reporting as well as the major initiatives taken by stakeholders and enterprises to define an appropriate reporting model. The current financial reporting framework takes into consideration primarily economic events that increase or decrease the value of an enterprise’s assets and liabilities. In that, it does not take into account the fact that the value of assets and liabilities of an enterprise is increasingly affected by factors pertaining to corporate social responsibility. Although there are improvements in the practice of social reporting, there are still some major issues to be solved such as the purpose, comparability and materiality of reports, the reporting medium and the verification of the data provided in them. This report has shown that stakeholders’ and enterprises’ initiatives are unlikely to solve these issues and result in a harmonization of social reporting.

In order to achieve comparability of social disclosure at the international level, there is a need for a global consensus on social reporting formats and content. Further work seems to be needed in order to improve the comparability and usefulness of information provided in social reports. In particular, it might be useful to focus further discussions on the following two areas:

⁶¹ FEE, “Discussion Paper Providing Assurance on Sustainability Reports”, 2002. Available from <http://www.fee.be/publications/main.htm>

⁶² Environmental Resources Management (ERM), “Corporate social reporting survey”, 2002. <http://www.erm.com/ERM/news.nsf/AllByID/8A88D6D0AA0451B880256C3900309CBD?OpenDocument>

Part I: Current Trends and Issues

The current efforts by companies to respond to the multiple demands for information lead to an increase in the volume of information provided by enterprises, thus increasing the cost of reporting without entirely meeting stakeholders' needs. Is there a need for further work to determine the most relevant qualitative items that would reflect the impact of enterprises' social policies?

Is there a need for additional input on a social reporting format, in particular in terms of harmonizing its content and improving the comparability of information?

If this is the case, what role can ISAR play in the process of resolving these issues?

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Addendum to the UNCTAD secretariat report

Appendix 1: Examples of definitions of CSR

The definition of corporate social responsibility has undergone substantial modifications over time, and it is still evolving along with society and society's expectations. There is no globally accepted definition of CSR, nor is there a consensus on a definitive list of the issues it encompasses. It is generally agreed that CSR is neither corporate philanthropy nor strict compliance with law. The common denominator to most definitions is that CSR is a concept whereby enterprises integrate social and environmental concerns into their business policies and operations, with a view to improving their impact on society. Examples of definitions are given below:

Private sector organizations

Business for Social Responsibility (BSR)

“CSR is operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. CSR is seen by leadership companies as more than a collection of discrete practices or occasional gestures, or initiatives motivated by marketing, public relations or other business benefits. Rather, it is viewed as a comprehensive set of policies, practices and programs that are integrated throughout business operations, and decision-making processes that are supported and rewarded by top management.”

World Business Council for Sustainable Development (WBCSD)

“Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”

International Business Leaders Forum (IBLF)

“Corporate Social Responsibility means open and transparent business practices that are based on ethical values and respect for employees, communities and the environment. It is designed to deliver sustainable value to society at large, as well as to shareholders.”

International Chamber of Commerce (ICC)

“The voluntary commitment by business to manage its activities in a responsible way.”

Empresa

CSR “generally refers to business decision-making linked to ethical values, compliance with legal requirements, and respect for people, communities and the environment.”

International organizations

United Nations

The United Nations does not add another definition of CSR to the numerous existing ones, but broadens the concept of corporate social responsibility by using the term “global corporate citizenship”, which covers both rights and responsibilities of TNCs in the international context. Multinational corporations can demonstrate “good corporate citizenship by ‘embracing and enacting’, both in their individual corporate practices and by supporting appropriate public policies, a number of universally-agreed values and principles” in the sectors of human rights, labour conditions and environmental protection.

United Nations Research Institute for Sustainable Development (UNRISD)

UNRISD attempts to clarify the meaning of CSR by citing a number of academics: corporate social responsibility "...is the ethical behaviour of a company towards society. [It involves] management acting responsibly in its relationship with other stakeholders who have a legitimate interest in the business – not just the shareholders".¹ The concept may also embrace values associated with environmental protection. While often used in a broad sense, strictly speaking, the notion of responsibility is restricted to the realms of ethics and principles, and not concrete actions or outcomes. For this reason there is considerable interest in the concept of corporate social performance, which includes not only motivating principles but also processes (for example, the adaptation of management systems and technologies), and observable outcomes or impacts on stakeholders.²

World Bank

"Corporate social responsibility, or CSR, is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life, in ways that are both good for business and good for development."

World Economic Forum

"Corporate citizenship can be defined as the contribution a company makes to society through its core business activities, its social investment and philanthropy programmes, and its engagement in public policy. The manner in which a company manages its economic, social and environmental relationships, as well as those with different stakeholders, in particular shareholders, employees, customers, business partners, governments and communities determines its impact."

OECD

"Corporate responsibility involves the effectiveness of the 'fit' businesses develop with the societies in which they operate. The core element of corporate responsibility concerns business activity itself."

Civil society organizations

Center for Corporate Citizenship at Boston College

"Corporate citizenship refers to the way a company integrates basic social values with everyday business practices, operations and policies. A corporate citizenship company understands that its own success is intertwined with societal health and well being. Therefore, it takes into account its impact on all stakeholders, including employees, customers, communities, suppliers, and the natural environment."

Taskforce on the Churches and Corporate Responsibility (TCCR)

Socially responsible corporations have a "stake in ensuring people are treated properly, receive fair and equitable wages, and operate under safe working conditions". They must "take their responsibilities seriously and become involved in designing, implementing and monitoring social responsibility performance."

¹ Schmidheiny S R Chase and DeSimone L (1997). *Signals of Change: Business Progress towards Sustainable Development*, World Business Council for Sustainable Development (WBCSD), Geneva, 1997.

² Hopkins M (1997). Defining indicators to assess socially responsible enterprises, *Futures*, 29:7, pp. 581–603. Wood, D.J. (1991). Social issues in management: Theory and research in corporate social performance, *Journal of Management*, Vol. 17, pp. 383–406.

National Policy Association

“Corporate responsibility is not just about ethical behaviour and accounting practices, it is also about how companies act towards their stakeholders as well as their shareholders.”

Amnesty International

“Economic actors – be they companies or international financial institutions – are accountable for the human rights impact of their activities.” Amnesty International considers it to be in the responsibility of enterprises to “take into account the human rights impact of all aspects of their operations; to prevent human rights abuses within their sphere of influence and in their own operations; and to use their legitimate influence to support human rights in all countries in which they operate.”

Appendix 2: Examples of major international CSR initiatives

United Nations Set of Multilaterally Agreed Equitable Control of Restrictive Business Practices. This set of principles, adopted in 1980 by the General Assembly, includes in its objectives the protection and promotion of social welfare, in particular that of consumers in developed and developing countries, and the maximization of international trade benefits for the development of developing countries. It directly addresses enterprises in its chapter on “Principles and rules for enterprises, including transnational corporations”, where it stresses the importance of complying with competition law, and requires enterprises to disclose any information on restrictive arrangements, and to refrain from restrictive business practices and abuse of dominant position.

*United Nations Sub-Commission on the Promotion and Protection of Human Rights Norms of Responsibility of Transnational Corporations and Other Business Enterprises in regard to Human Rights.*³ These rights include the following: equal opportunity, non-discrimination, security, rights of workers, respect for national sovereignty and human rights, consumer protection, and environmental protection. The norms are accompanied by general provisions for implementation. They include the adoption, dissemination and implementation of internal rules of operation in compliance with the Human Rights Responsibilities (HRR); the incorporation of the HRR in contracts with business partners; periodic evaluations by the enterprises of the impact of their activities on human rights; reparation for those who have been affected, in case of failure to comply with the HRR; and independent monitoring by national, international, governmental and/or non-governmental mechanisms of enterprises’ compliance with the HRR. The draft norms will be discussed in July and August 2003.

International Labour Organization Principles for Multinational Enterprises - The ILO’s tri-partite decision-making body, representing Governments, labour organizations and employers’ organizations, has agreed on the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy,⁴ which aim at creating employment standards for businesses. It covers employment issues such as non-discrimination, security of employment, training, wages, benefits and working conditions, health and safety, freedom of association and the right to organize. It also calls on employers to respect specific international human rights agreements. The Declaration is addressed to workers, unions, Governments and businesses. Every three years, the ILO undertakes a survey of the degree of implementation of the Declaration at the national level. Some criticisms are levelled at the survey. The methodology is poorly designed, the analysis contains no statistical data that could allow comparison of trends across time, and the report seems to balance the divergent opinions of constituents on the observance of the Declaration in different countries. The ILO is currently trying to address these issues by introducing supplementary and more detailed questionnaires for TNCs and Global Unions

³ <http://www1.umn.edu/humanrts/links/NormsApril2003.html>

⁴ <http://www.ilo.org/public/english/employment/multi/index.htm>

Federation, and by reducing the frequency of the survey to allow for more in-depth national surveys and studies.

OECD Principles of Corporate Governance. The OECD plays a prominent role in the fostering of good corporate governance. In 1999, it produced a revised set of internationally agreed Principles of Corporate Governance,⁵ which introduces the concept of corporations' responsibilities towards their stakeholders as well as their shareholders. The Principles are non-binding.

OECD Guidelines for Multinational Enterprises. The OECD countries also agreed, in 1976, to a set of Guidelines for Multinational Enterprises,⁶ which were revised most recently in 2000 and endorsed by 36 countries.⁷ They are the most comprehensive set of multilaterally endorsed guidelines, covering disclosure, employment, industrial relations, environment, bribery, consumer interests, science and technology, competition and taxation. The Guidelines are accompanied by an implementation procedure, with national contact points in each endorsing country, through which complaints can be made and disputes settled between enterprises and other parties. However, the Guidelines are often criticized for not being clear enough on implementation and on who can bring complaints and how. Other related OECD initiatives are under way, including the Bribery Convention and the Guidelines for Consumer Protection in the Context of Electronic Commerce.

United Nations Global Compact. The Global Compact (GC), an initiative of the United Nations Secretary-General Kofi Annan, seeks to promote development by asking enterprises to adhere to nine principles related to environmental protection, human rights and labour standards in their business operations.⁸ These principles are drawn from the Universal Declaration of Human Rights, the ILO's Fundamental Labour Principles, and the Rio Principles on Environment and Development. The Compact involves a network of UN agencies, enterprises, business associations and civil society organizations. Enterprises are asked to respect and implement the principles, provide the GC with reports of best practice in relation to the principles, and participate in projects with UN agencies and civil society organizations in developing countries. Since January 2003, the 700 enterprises taking part in the Global Compact have been required to state in their annual report what they have been doing with respect to all of the nine principles. However, the format and the manner of disclosure are left to each enterprise.

European Union Multi-Stakeholders Forum on CSR. Since the mid-1990s, the European Parliament has called on several occasions for codes of conduct for the European multinationals operating in developing countries. As a follow-up to the European Council Summit in Lisbon in 2000, the European Commission produced a Green Paper in 2001, which launched a debate about the concept of CSR and tried to identify how to build a partnership for the development of a European framework for the promotion of CSR.⁹ A Commission Communication was published in July 2002,¹⁰ which forms the basis for a European strategy on CSR. This strategy recommends "a balanced and broad approach to CSR, including economic, social and environmental issues as well as consumer interests". The

⁵ <http://www.oecd.org/pdf/M00008000/M00008299.pdf>

⁶ OECD, "The OECD Declaration and decisions on international investment and multinational enterprises: basic texts", 2000.

⁷ Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Republic of Korea, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States.

⁸ <http://www.unglobalcompact.org/Portal/>

⁹ European Commission, "Promoting a European Framework for Corporate Social Responsibility", 2001.

¹⁰ European Commission, "Corporate Social Responsibility: A business contribution to Sustainable Development", 2002.

Commission's intention is to focus its strategy not only in Europe but also in developing countries. Following this Communication, a European Multi-Stakeholders Forum on CSR (CSR EMS Forum) was launched on 16 October 2002 and will run until mid-2004.¹¹ Its major output will be a report to be presented to the Commission, containing results and recommendations for further action. The interest taken by the European Parliament in CSR and the strategy devised by the Commission have a potential demonstration effect among European countries. It is likely that the number of schemes will increase, such as the Belgian social labelling scheme, as well as more social performance reporting requirements at the national level.

Appendix 3: Examples of reporting formats

In order to illustrate the variety of reporting formats, we have compared three examples of the most recent social reports published by Shell, British Petroleum (BP) and The Cooperative Bank. The reason for selecting the first two reports lies in the fact that oil enterprises have been among the first to report on their environmental and social performances, and therefore have many years of experience. Their reports have also been rated among the best social reports in several surveys¹². These two enterprises' reports illustrate the diversity in reporting formats that can exist within the same industrial sector. The third enterprise has been selected because it allows a comparison across two different sectors, and because its report has been judged to be the best social report in the same surveys as the other two enterprises.

The "Shell Report 2002" is articulated around:

Sections	Number of pages (out of a total of 51)
<i>Contents page and links to further information;</i>	1
Introduction	1
Message from the Chairman stating the enterprise's commitment to sustainable development	1
Summary of the past year's economic, environmental and social performance with a review of the major related achievements and problems	2
"About Shell" section that includes a statement of the enterprise's strategy and values, a description of management systems in place to integrate sustainability issues into the enterprise's operations, a description of the enterprise's corporate governance, and an explanation of the measurements and external assurance used in the report	6
Statement by the United Nations Development Programme's Administrator on his perspective on the "energy challenge", accompanied by Shell's response to this challenge	4
Description of the enterprise's economic, environmental and social performance using Shell's key performance indicators	26
Assurance section with a message from the auditors – KPMG and PricewaterhouseCoopers – and their report	1
Basis of reporting	1
Data table containing figures of economic, environmental and social performance over 6 years	3
Statement of Shell's business principles	1
Contact and publications details.	1

¹¹ <http://europa.eu.int/comm/enterprise/csr/forum.htm>

¹² Shell was ranked 2nd best sustainability reporter by the ACCA and 6th by SustainAbility in 2002. In the latter, BP was ranked 7th best reporter.

Part I: Current Trends and Issues

British Petroleum’s “Environmental and Social Review 2002” first defines what environmental and social performance encompasses. It includes:

Sections	Number of pages (out of a total of 34)
Contents page and guide to BP’s reporting format and principles	1
Group Chief Executive statement that links financial performance to environmental and social performance, highlights major achievements at BP and outlines the content of the report	1
Review of the past year, including key achievements and major challenges met	4
Statement of the enterprise’s policies regarding ethics, employees, relationships with stakeholders, and health and safety	4
Section describing the benefits brought by BP to society	4
Description of issues faced by the enterprise around the world	6
Selection of information published in local reports	6
Performance section, including safety, environmental, business ethics, employee and social issues	4
Assurance statement by Ernst & Young	2
Reference to the enterprise’s web site, where more detailed performance information can be found	1
Contact details	1

The Co-operative Bank’s “Partnership Report 2002” includes:

Sections	Number of pages (out of a total of 102)
List of the various social, ethical and environmental awards and commendations received by the enterprise in 2002	1
Contents page	1
Chief Executive Statement	6
Performance review, including data on delivering value, social responsibility, and ecological sustainability over time periods of 2 to 6 years depending on the indicator	3
Background and historical perspective of the enterprise’s “partnership approach”	6
Description of the enterprise’s stakeholders, their priorities and performance measures used	2
A guide to the symbols and indicators used in the report	5
Performance on delivering value	18
Performance on social responsibility	19
Performance on ecological sustainability	19
Review of campaigns in which the enterprise participates	6
Auditor’s statement by “ethics etc...”, assessment of delivering value by “Tomorrow’s Enterprise”, assessment of social responsibility by “Business in the Community”, and assessment of ecological sustainability by “The Natural Step UK”	5
Social, ethical and environmental awards and commendations received in the period January–April 2003	1

Appendix 4: Additional information on the current state of sustainability reporting

Trends

Surveys of reporters carried out by major accounting companies and consultancies show an increase in triple bottom line reporting, with environmental issues still largely more reported on than other sustainability issues. KPMG's survey of the world's top 250 companies ranked by revenue¹³ (GFT250) shows that 45 per cent published a separate sustainability report in 2002 compared with 35 per cent in 1999. For the survey of the Top 100 companies in 19 countries, these figures are 28 per cent and 24 per cent respectively.

Although health and safety, and environmental reporting are still the most prominent types of reports among GFT250 companies (73 per cent), other types of reports are emerging, including TLB reports (14 per cent), combined environmental and social reports (10 per cent), and social and combined social and financial reports (3 per cent). The Top 100 survey mirrors this trend, showing that these companies are increasingly incorporating social and economic issues in their health and safety, and environmental reports¹⁴. Social issues that are increasingly focused on include community involvement, equal opportunity, workforce diversity, human rights, supplier relations, child labour, freedom of association, and fair trade.

The reporting rates tend to be higher in countries with large corporations. Across surveys, the United States, the United Kingdom, Germany and Japan are consistently ranked among the top five countries with the largest number of sustainability reports.

Corporate reporting by country

	CorporateRegister.com	KPMG GFT250	KPMG Top 100
1	United Kingdom	United States	Japan
2	Germany	Japan	United Kingdom
3	United States	Germany	United States
4	Japan	United Kingdom	Netherlands
5	Australia	France	Germany

The result of the Top 100 companies is particularly interesting as it compares the same number of companies in each country. In this survey, Japan has by far the highest proportion of companies producing separate corporate reports.

Sustainability reporting rates by country

Japan	72%
United Kingdom	49%
United States	36%
Netherlands	35%
Germany	32%

Source: KPMG Top 100.

Sustainability reporting practices are no longer restricted to sectors with a high environmental impact in Western countries: non-industrial sectors and other regions are also covered. KPMG's GFT250 survey shows that the largest increase in reporting rates is in the food and beverages (+30 per cent), communication and media (+21 per cent), transport (+20 per cent) and utilities (+18 per cent) sectors.

¹³ Global Fortune Top 250 or GFT250.

¹⁴ KPMG, "International Survey of Corporate Sustainability Reporting", 2002.

However, the chemicals and synthetics, forestry and paper, and oil and gas sectors still have some of the highest sustainability reporting rates across all surveys.

Corporate reporting by sector			
	CorporateRegister.com	KPMG GFT250	KPMG Top 100
1	Chemicals	Mining	Utilities
2	Electricity	Forestry, pulp & paper	Communication & media
3	Oil & gas	Chemicals & synthetics	Chemicals & synthetics
4	Transport	Transport	Forestry, pulp & paper
5	Forestry & paper	Pharmaceuticals	Oil & gas

Content

All surveys agree on the fact that the content and quality of sustainability reports vary greatly. Content is generally analysed in terms of environmental, economic and social issues.

Environmental performance

Environmental issues include the impact of production processes, products and services on air, land, biodiversity and human health.

Economic performance

Economic performance reporting covers wages and benefits, productivity, job creation, outsourcing expenditures, R&D investments, and investments in training and other forms of human capital.

Social performance

Social issues typically include traditional reporting topics such as workplace health and safety, employee satisfaction and corporate philanthropy, as well as more external topics such as labour and human rights, diversity of the workforce and supplier relations. The following table shows that traditional reporting topics still rate higher than the newer topics.

Social topics addressed in GFT250 reports	
Topics	%
Community involvement	97
Health and safety	91
Equal opportunity/workforce diversity	88
Employee satisfaction	67
Human rights	55
Supplier relations	39
Child labour	36
Freedom of association	27
Fair trade/international development	18
Corruption	15

Source: KPMG.

PwC notes that in this area the standards are evolving, and the tools and metrics vary by geography and industry.

PwC's survey of 140 large US-based companies¹⁵ shows that companies are struggling to define what sustainability means to their business and to translate sustainability into measurable standards. Overall,

¹⁵ PricewaterhouseCoopers, "Sustainability Survey Report", 2002.

the ability to develop and use concrete metrics to show sustainable improvements is significantly lower in the areas of social and environmental performance than in economic performance¹⁶.

SustainAbility has carried out a quality assessment of 100 sustainability and CSR reports from around the world and concludes that although the average number of pages has increased by 45 per cent, the reports' quality has not increased compared with the quality level in 2000.¹⁷

Companies have started developing sets of social indicators in order to be able to measure their social performance and set targets. The table below ranks the top five social performance indicators used by the GFT250 companies. For those social issues for which it is more difficult to set a hard performance metric, the reporting remains qualitative.

Top 5 social performance indicators	
Topics	%
Accident/injury frequency	76
Community spending	48
Women in staff/management	42
Staff diversity	27
Supplier diversity	12

Source: KPMG GFT250.

Other contents

Increasingly, companies report on stakeholder dialogue by including stakeholder statements, staff surveys, community panels and forums. When specific stakeholders are mentioned, they include mainly employees, customers, shareholders and society/community. Codes of conduct are also referred to, and partnerships with NGOs are referred to nearly as many times (40 per cent) as partnerships with other businesses (56 per cent).

Verification

Despite the lack of internationally accepted standards for providing assurance on social and environmental reports, a significant number of reports were verified in 2002 by a third party – 29 per cent and 27 per cent respectively for GFT250 and Top 100 companies. Verification was carried out by a major accountancy firm in 65 per cent of cases.

Appendix 5: Useful websites

	Organization	Website address
1	Active Citizenship Network	http://www.activecitizenship.net
2	Amnesty International	http://www.amnesty.org
3	Business and Sustainable Development	http://www.bsddglobal.com/issues/reporting.asp
4	Business for Social Responsibility	http://www.bsr.org
5	Business Impact	http://www.business-impact.org/bi2/front/index.cfm
6	Business in the Community	http://www.bitc.org.uk
7	California Global Corporate Accountability Project	http://www.nautilus.org/cap/index.html
8	Calvert Group	http://www.calvert.com/sri.html
9	Caux Round Table	http://www.cauxroundtable.org

¹⁶ PricewaterhouseCoopers, "Management Barometer Survey", September 2002.

¹⁷ SustainAbility, "Trust Us", 2002.

Part I: Current Trends and Issues

	Organization	Website address
10	Center for Corporate Citizenship at Boston College	http://www.bc.edu/centers/ccc/index.html
11	Center for Ethical Business Culture	http://www.cebcglobal.org
12	Centre for Innovation in Corporate Responsibility	http://www.cicr.net/
13	Centre for Science and Environment	http://www.cseindia.org/
14	Centre for Social and Environmental Accounting Research	http://www.gla.ac.uk/departments/accounting/csear/
15	Centre of Research on Multinational Corporations	http://www.somo.nl/index_eng.html
16	Clean Clothes Campaign	http://www.cleanclothes.org/
17	Coalition for Environmentally Responsible Economies	http://www.ceres.org
18	Conference Board	http://www.conference-board.org/knowledge/citizenship.cfm
19	Corporate Watch	http://www.corpwatch.org/
20	Covalence S.A.	http://www.covalence.ch/
21	CSR Europe	http://www.csreurope.org
22	Domini Social Investments	http://www.domini.com
23	Dow Jones	http://www.sustainability-indexes.com
24	Ecumenical Council for Corporate Responsibility	http://www.eccr.org.uk/
25	Empresa	http://www.empresa.org/english/
26	Ethical Investment Research Service	http://www.eiris.org
27	Ethical Trading Initiative	http://www.ethicaltrade.org
28	EU CSR website	http://europa.eu.int/comm/employment_social/soc-dial/csr/csr_index.htm
29	European Federation of Accountants	http://www.fee.be/
30	European Multi-Stakeholder Forum on Corporate Social Responsibility	http://forum.europa.eu.int/irc/empl/csr_eu_multi_stakeholder_forum/info/data/en/csr%20ems%20forum.htm
31	Fair Labour Association	http://www.fairlabor.org/
32	Forest Stewardship Council	http://www.fscoax.org/
33	Friends of the Earth International	http://www.foei.org
34	Global Alliance for Workers and Communities	http://www.theglobalalliance.org/main.cfm
35	Global Compact	http://www.unglobalcompact.org/Portalhttp://www.un
36	Global Corporate Governance Forum	http://www.gcgf.org/
37	Global Mining Initiative	http://www.globalmining.com/index.asp
38	Global Reporting Initiative	http://www.globalreporting.org
39	Global Responsibility International AB	http://www.global-responsibility.com
40	Global Sullivan Principles of Social Responsibility	http://globalsullivanprinciples.org/index.htm
41	GoodCorporation	http://www.goodcorporation.com/en/
42	Institute of Social and Ethical Accountability	http://www.accountability.org.uk/
43	Interfaith Center on Corporate Responsibility	http://www.iccr.org/
44	International Business Leaders Forum	http://www.pwblf.org
45	International Institute for Environment and Development	http://www.iied.org/cred/index.html
46	International Institute for Sustainable Development	http://www.iisd.org/measure/default.htm
47	International Labour Organization	http://www.ilo.org
48	International Sustainability Indicators Network	http://www.sustainabilityindicators.org/
49	Investor Responsibility Research Center	http://www.irrc.org
50	Keidanren Charter for Good Corporate Behavior	http://www.keidanren.or.jp
51	Kenan Institute	http://www.kenaninstitute.unc.edu/Affiliates/KIinWash/KIW_CSR/KIW_CSR.html
52	Marine Stewardship Council	http://www.msc.org/
53	MHC International Limited	http://www.mhcinternational.com/
54	Natural Heritage Institute	http://www.n-h-i.org/Contact/contact.html
55	Nautilus Institute for Security and Sustainability	http://www.nautilus.org/index.html
56	New Economics Foundation	http://www.neweconomics.org/default.asp

Disclosure of the Impact of Corporations on Society

	Organization	Website address
57	OECD	http://www.oecd.org/EN/home/0,,EN-home-126-nodirectorate-no-no-no-28,00.html
58	Oekom Research	http://www.oekom.de/ag/english/
59	Social Accountability International	http://www.cepaa.org/AboutSAI/AboutSAI.htm
60	Social Investment Forum	http://www.socialinvest.org
61	Social Venture Network	http://www.svn.org
62	SocialFunds.com	http://www.socialfunds.com
63	Stakeholder Alliance	http://www.stakeholderalliance.org/sunstds.html
64	Stratos	http://www.stratos-sts.com/index.htm
65	SustainAbility	http://www.sustainability.com
66	Taskforce on the Churches and Corporate Responsibility	http://www.web.net/~tccr/benchmarks/http://www.web
67	The Copenhagen Centre	http://www.copenhagencentre.org
68	Transparency International	http://www.transparency.org/
69	Triple-P Performance Centre	http://www.triple-p.org
70	United Nations Global Compact	http://www.unglobalcompact.org/Portal/
71	United Nations Research Institute for Social Development	http://www.unrisd.org/
72	University of Victoria	http://web.uvic.ca/sci/
73	World Bank Corporate Social Responsibility Practice	http://www.worldbank.org/privatesector/csr/index.h
74	World Business Council for Sustainable Development	http://www.wbcsd.ch
75	World CSR	http://www.worldcsr.com/pages/
76	World Economic Forum	http://www.weforum.org/site/homepublic.nsf/Content
77	Worldwide Responsible Apparel Production	http://www.wrapapparel.org/

Part II

***Proceedings of the UNCTAD/ISAR Workshop
on Disclosure of the Impact
of Corporations on Society***

Summary of the UNCTAD/ISAR Workshop on the Disclosure of the Impact of Corporations in Society

Geneva, 2 October 2003

Objectives

The two major objectives of this workshop were:

1. To raise awareness among ISAR members of current trends, initiatives and issues in the area of reporting on corporate social responsibility;
2. To assess the impact of these trends on investor confidence and implications for accounting and reporting.

In particular, the workshop aimed at triggering discussions on the following points:

- Major issues currently faced by the preparers and users of corporate social reports;
- The type of work that is needed to determine the most relevant items that would reflect the impact of enterprises' social policies and performance;
- The potential need for additional input on a social reporting format, in particular in terms of harmonizing its content and improving the comparability of information;
- The benefits of better corporate disclosure of social impact for sustainable development and economic growth in developing countries.

Speakers and participants

Speakers were high-level representatives of a wide range of organizations, including research centres, international organizations, civil society organizations from Africa and Asia, multinational investment firms, trade union organizations, national and transnational corporations, CSR reporting initiatives, and international accounting organizations.

There were 128 participants from 51 countries; this means that 60 per cent of those attending the twentieth session of ISAR stayed on for a fourth day. Attendance was consistently high throughout the day, demonstrating ISAR members' interest in the issue of CSR reporting.

Main issues

Main issues explored during the workshop included:

- The essential role of CSR in society today;
- The developmental implications of CSR and the role of CSR reporting in private and public organizations' engagement;
- Voluntary versus mandatory CSR practices and their influence on the quality of CSR reporting;
- The limitations of current CSR reporting practices and initiatives both in terms of number of reports and scope of items reported, and with regard to bringing comparability and coherence to the information disclosed;
- The importance of monitoring the integration of enterprises' CSR strategies at all levels of operations;
- Difficulties still faced by enterprises at the cutting edge of CSR reporting;

Disclosure of the Impact of Corporations on Society

- future steps to be taken in CSR reporting practices, in particular the need for a new reporting model, with a view to increasing comparability, integrating developmental concerns and reducing the cost of CSR reporting.

The role of CSR in today's society was discussed first. It was argued that CSR fills the gap left by ethical erosion, the absence of regulations in many countries and the lack of recognition of enterprises as political actors, even though the Fortune 500 US firms' turnover equals 25 per cent of the world's GDP. Speakers emphasized that there are economic reasons for enterprises to adopt a more responsible attitude towards society. The integration of CSR concerns into enterprises' operations is increasingly seen as proof of good management, and as the number of socially responsible investment funds grows, there is pressure to invest in enterprises that can demonstrate the integration of CSR into their operations.

The drivers for CSR and reporting were presented. Although CSR is driven by a developed countries' agenda, it was acknowledged that it is here to stay and that developing countries have many benefits to derive from it.

The developmental implications of CSR were discussed, as well as how enterprises relate to the structural dimensions of underdevelopment. Developing countries' Governments and civil society need to know about the impact that TNCs and their supply chains can have on their land and society. It was felt that comparable CSR reporting would promote positive engagement and help enterprises benchmark their performance. It was stressed by speakers that increased transparency regarding corporations' impact on their host countries would improve corporate governance and reduce corruption in both the public and the private sectors.

General concerns during discussions included issues such as the unchecked power of corporations, lobbying, unsustainable investment and consumption patterns, and double standards. Particular country cases were cited where major gaps in the CSR agenda were exposed. In response, suggestions for the way forward in CSR reporting included:

- A selection of core indicators and their verification by independent evaluators;
- Integration of developing countries' concerns, particularly development concerns;
- Rearticulating voluntarism and law.

The issues of voluntary versus mandatory CSR practices was debated. It was argued that there is not always a business case for CSR, and thus legislation is needed. On the other hand, it was recognized that simply obeying the law does not make one a good citizen, and that CSR is about best practice. It was also stressed that there is currently no CSR framework mature and robust enough to be used as a basis for country law. With regard to reporting, it was argued that current reporting practices are largely influenced by rating agencies and CSR management consultants, who are in turn influenced by the business case for CSR, which leaves many relevant CSR issues out of reports. A number of governmental disclosure requirements were mentioned, those in Belgium, Denmark, France, the Netherlands, Norway and the United Kingdom.

The limitation of the scope of CSR reporting was brought to light by a speaker from Bangladesh, where only one company has so far issued a report. In particular, she also mentioned the lack of concern on the part of financial sector institutions for the development of host countries, where the proportion of lending is in favour of subsidiaries of TNCs rather than local enterprises. The lack of usefulness of current company reports was also discussed in relation to companies' impact on developing countries. Many enterprises disclose aggregate figures that give no indication of the impact of their subsidiaries in their supply chain in particular countries. The Unilever representative explained

his company's reporting methodology whereby subsidiaries produce publicly available CSR reports specific to their host countries, and headquarters compiles an aggregate report for the company worldwide.

The point was made by one of the participants that CSR has to be part of a company's core business strategy and has to be integrated at all levels of operations. This was supported by the representative of socially responsible investors, who explained that the evaluation process involves assessing not only companies' policies but also their management systems, their success in implementing their policies and the quality of companies' reporting on these three issues. One of the reporting initiatives presented also takes into account business processes in its assessment of companies' commitment to CSR.

Companies explained some of the difficulties faced in the compilation of their reports: the establishment of a continuous stakeholders' dialogue, striking a balance between relevance of information for all stakeholders and readability of the report, bringing consistency to data from different countries (e.g. labour statistics), benchmarking the company's performance against appropriate figures, and inculcating the right mindset in all managers globally. The companies argued that the cost of reporting is prohibitive for smaller companies, and the following estimations were mentioned by the speakers: GRI, \$100,000; British American Tobacco, £500,000; Shell, \$3 million; and the Co-operative Bank, £276,000 per report. When asked what it would cost the company if it stopped producing CSR reports, the representative of the Co-operative Bank said that doing so would cost the company its credibility as an ethical bank, which might amount to a £30 million loss.

Several initiatives undertaken to develop CSR reporting were presented by their representatives. It was generally agreed that much valuable work has been carried out in this field but also that the initiatives undertaken do not prevent – and sometimes even contribute to – lack of comparability and coherence of information disclosed. They also do not address the problem of the cost of reporting. For example, the Global Reporting Initiative (GRI) proposes 97 indicators, including 50 core ones. Another initiative – Business in the Community (BITC) – proposes 50 indicators, and its representatives agreed that some rationalizing needs to be done, in collaboration with users of CSR reports, to increase the latter's readership.

The need for a new reporting model was discussed, with a view to increasing comparability, integrating developmental concerns and reducing the cost of CSR reporting. Comparability was seen as being both currently insufficient and necessary, and it was stated that reasonable requirements could bring comparability and minimize the burden of reporting.

Outcome

This event was particularly useful for bringing ISAR members to a common level of understanding of CSR and CSR reporting issues. It acquainted them with the views of the major stakeholders of the CSR agenda, reviewed the current state of development of reporting, and gave them the opportunity to understand and discuss the major issues regarding CSR reporting.

The workshop put ISAR on the fast track in terms of work on CSR reporting, particularly large enterprises' developmental impact. It revealed the gaps in current CSR reporting initiatives, whether business- or civil-society-driven, and crystallized the need for increased comparability of reports and, the integration of developmental concerns that have so far been left out, while reducing the cost of CSR reporting.

The output of the workshop will serve as the background material for the informal consultative group on CSR reporting that ISAR agreed to create to prepare for its twenty-first session.

Economic power and social responsibility of very big enterprises: Facts and challenges¹

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There is broad evidence and agreement that multinational enterprises play a leading role in the world economy. However, both evidence and agreement fall to pieces when it comes to describing this role in quantitative as well as qualitative terms.

This paper addresses three rather different issues and leaves aside much of the technical debate. First, it presents some macroeconomic evidence on the aggregate weight in the world economy of the biggest non-financial enterprises. Secondly, it compares these enterprises with the poorest countries and discusses the deepening productivity gap. Thirdly, it looks at the very big enterprises (VBEs) as the ultimate structuring forces of the world economy and the real drivers of globalization, and argues that self-regulation of these enterprises by CSR (corporate social responsibility) type initiatives may well not suffice to counterbalance their long-term structuring power.

The weight of VBEs in the world economy

The focal reference of mainstream economic theory is an idealized market in which under conditions of perfect competition, an infinite number of enterprises battle for the favours of an equally innumerable crowd of buyers. In the real-world economy, things are very different. In each sector or industry, a finite number of players of different size, product and factor-mix pursue various strategies and have a variety of mutual relationships ranging from outright competition through various degrees of (inter)dependence to cooperation and partnership. In the context of the global open economy, major corporations play a particularly important role because of the amount of resources they control and because of the length and breadth of time and space perspectives in which they take their investment decisions. As major players in the world economy, these VBEs influence not only smaller enterprises both upstream and downstream of their value chain, but also markets and national or regional economies where their subsidiaries are located.

VBEs is a useful but fuzzy concept; four characteristics help to differentiate them better from the rest of the enterprise population:

- Most of the VBE are *public companies*, and their shares and bonds are listed on major financial markets. In most cases, the shares of these companies belong to the most liquid on the market, i.e. the least risky for financial investors. Because of that liquidity, in normal times VBEs have a preferential access to markets which allows them to raise additional finance on more favourable terms than less liquid or non-listed companies. The “price” that listed companies pay for preferential access to finance is their supervision and regulation by market authorities. According to IFC data, in 2000 about 50,000 enterprises were listed on world stock exchanges;³ it is clear, however, that not all qualify as VBEs.

¹ Finance & the Common Good / Bien Commun, “Globalization in Crossfire” (N° 15), Observatoire de la Finance (www.obsfin.ch), Geneva, 2003.

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³ Dembinski (2003, p.141).

- VBEs are big enough to set up and manage a worldwide networks of subsidiaries. This enables them not only to choose new sites to suit their needs, but also to optimize their global activities and skills. The often used term “multinational enterprise” stresses this capacity to build trans-border networks. According to UNCTAD, there are about 60,000 “multinational” enterprises worldwide which control about 500,000 affiliates around the globe. In its estimate, UNCTAD considers as “multinational” any enterprise that has at least one affiliate. In consequence, it is obvious that not all multinationals in the UNCTAD sense are VBEs.
- In industrial society, the strength of major corporations used to derive from their ability to take full advantage of their production facilities (economies of scale) and hence charge lower prices than their smaller competitors could ever achieve. In post-industrial society, in which marketing and service matter more than production of goods, the nature of the VBEs’ advantages has changed. The strength of major corporations in a post-industrial society lies less in economies of scale on the production side than in their ability to manage global brands and carry out parallel activities which, even though they result in different products or services, make use of the same basic skills (economies of scope). VBEs are high-profile companies which polish and protect their images and reputations with the help of advertising and marketing campaigns. Their brand names or other identifying features enable them to interact directly with the consumers of their products and services, and in doing so they can often bypass distributors. In this way they can differentiate themselves from their competitors and dominate the markets they are in.
- VBEs spend considerable proportions of their turnover on R&D for new generations of products or services. In fact, what they are trying to do is *control the speed of innovation*. Each business does what it can to match the speed of innovation to its own investment cycle and so optimize its profitability.

The company reports, stock markets’ authorities and listings produced by media groups – such as the famous Fortune 500 started in 1954 – and data providers are the unique source of quantitative information on VBEs. Despite their apparent accessibility due to data processing technologies, a coherent statistical series on worldwide VBEs is still missing. Four reasons explain this situation: (i) diversity of reporting requirements; (ii) changes in reporting methods used by the same enterprise; (iii) lack of stability in VBE population due to changes of names, mergers and acquisitions, spillovers, bankruptcies, and so forth; and (iv) a traditional lack of interest by statistical authorities and scholars in the economics of VBEs. On this last point things are beginning to change and a proper “meso-economic” field is emerging.

Because of the lack of data for the whole group of VBEs, the empirical scope of this paper has been narrowed to the biggest non-financial enterprises listed on a stock market. Using the Thomson Financial Data Base, we have been able to isolate the 800 largest enterprises worldwide according their stock market capitalization at the end 2001.

The total turnover of the world’s 800 largest non-financial enterprises is equivalent to 33 per cent of world GDP. This figure includes (a) the value-added that has been directly produced by these enterprises and (b) the cost of purchased inputs, namely the value added by activities that are upstream of the buyer. As most of the VBEs use distribution networks to sell their products and services to the end-users, their activity indirectly generates value added downstream which does not appear in the VBEs’ books. If one uses a rule of thumb according to which value added by distribution makes up about one third of the final price, the 800 VBEs would then directly or indirectly generate about one half of the world’s GDP. The level of concentration within the group of 800 is high and thus the 200 biggest enterprises would generate about 25 per cent of world GDP. The above-mentioned figures are only orders of magnitude, possibly on the higher size because they do not account for transactions that may occur within the group of 800 VBEs.

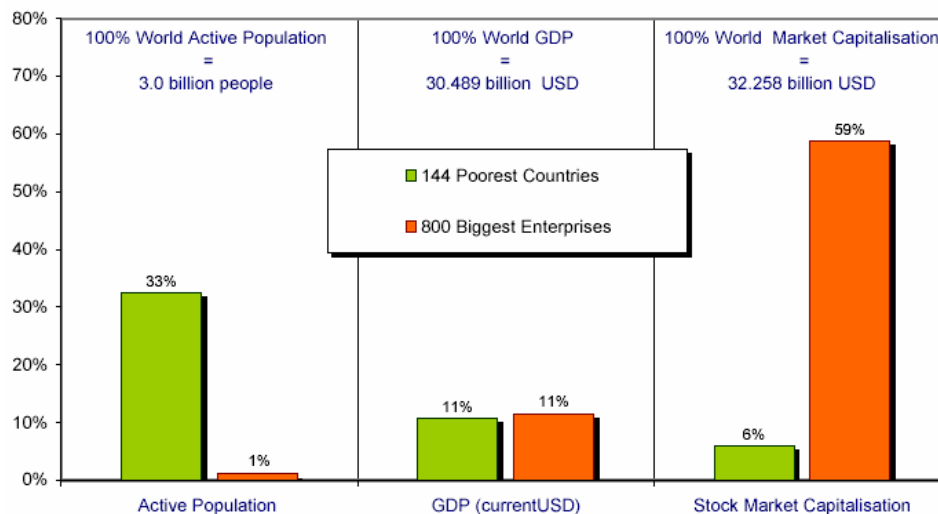
Under most of the reporting rules, companies are not required to report their value-added, and thus the direct contribution of VBEs to world GDP has to be calculated or estimated. Other studies⁴ have shown that value added by the major corporations represents one third of their turnover. Thus the 800 largest VBEs can reasonably be expected to directly generate 11 per cent of global GDP. The group of 800 biggest enterprises, according to company reports, employs about 30 million people, which is about 1 per cent of the world's active population. The ratio of output to employment indicates that these enterprises are very high on world labour productivity tables, outperforming the average by a factor of 10.

In terms of stock market capitalization, the same group of enterprises accounts for about 60 per cent of global stock market capitalization. As such these enterprises are receiving an important share of world savings through their bond issues, bank credits or issues of shares. These corporations are thus the interface that really matters between what some people used to call “real” and “financial” dimensions of the world economy. When market capitalization is taken as an approximation of the capital stock used, the productivity of capital in the biggest enterprises seems to be much lower than in the rest of the world economy.

These 800 enterprises are heavy direct investors. According to other work, namely that of UNCTAD, these companies are responsible for the bulk of foreign direct investment worldwide, and for nearly all investments flowing from the North to the South. Again, because of their size and the international spread of their activities, these enterprises are responsible for a very large proportion of world merchandise trade, which could be as high as 60 per cent.⁵ With a very few exceptions, the 800 largest enterprises are based in the Triad countries even if a certain proportion of their activities takes place in the South.

VBEs and the poorest countries: How wide is the gap?

This set of rough estimates of the weight of major corporations in the world economy runs counter to the normal way of looking at the economy, which takes national economies as the normal unit of analysis. The table below compares the 800 biggest enterprises with the 144 poorest countries. Because of the differing nature of the two sets of actors, it is more appropriate to speak of juxtaposition rather than true comparison. The two sets of actors have one magnitude in common: both



⁴ UK Government (2003) and Dembinski (1998b).

⁵ Rangan (2001).

contribute 11 per cent to the world GDP. This being said, all the other data are at odds: employment, stock market capitalization, FDI and trade.

The quantitative evidence presented here helps to identify two sets of problems. The first is related to the productivity gap, while the second is related to the structuring power that the VBEs exert over the societies of the South.

The VBEs – as clearly shown for the 800 biggest – use a factor mix very different from the one present in the poorest countries. The capital intensity per unit of GDP is 10 times greater in the VBEs than in the poorest countries, and it is also much greater than in the rest of the economies in the North. In other words, because of their privileged access to capital markets, VBEs are able to substitute capital for labour at a much higher level than any other player in the world economy. This explains both the specific factor mix used by these companies and the speed of their technological change. Growing substitution means also that a growing part of the value-added generated by VBEs goes to capital owners – exclusively located in the North – as their remuneration. The poorest countries are in exactly the opposite situation: because of lack of local savings and because of the liquidity in international financial markets, local capital is siphoned off by the very major players, and the labour-intensive bias in their factor mix is set to remain or even to deepen. Labour-intensive countries will continue to be used by the VBEs as places where those manufacturing activities will take place that are labour-intensive or where, because of low wages, the substitution of capital for labour does not – for the time being – make sense. In other words, through the interface of VBEs the labour-intensive countries are competing against cheap and abundant capital, not against highly qualified labour in Northern countries. In consequence, there is no systemic reason why the productivity gap should get narrower in the future. Left to itself, the logic of substitution of labour through capital will most probably continue to widen in the future.

The second set of problems is closely linked to the previous one. Taking into account the fact that VBEs are major foreign direct investors, major trade partners and owners of global brands striving to service global markets, these enterprises are the effective “interdependence links” that make different parts of the world economy work together. They are the real builders of (inter)dependencies, but in most cases they are able to keep for themselves an “arbitraging” position.

Efficiency, ethics or politics? Will the structuring power of VBEs remain unbalanced by accountability (to be extended and modified)

Enterprises, especially the VBEs have been the main conduits through which globalization has shaped the face of the contemporary world. During the last quarter of last century, VBEs were undoubtedly the major conduits of globalization and as such played a major role in speeding the structural changes in the world economy.

VBEs were among the first to take full advantage of the possibilities offered by the development of IT. On the one hand, by integrating this technology into their products, they proved able to develop new products and new services based on the principle of controlling feedback loops. On the other hand, enterprises also rapidly learned how to make the best use of IT in organizing and running their own operations worldwide.

International business started well before free trade came within the focus of policy makers. In the aftermath of the Second World War, American VBEs were in an excellent position to establish themselves as world leaders. In the decades that followed they had to face growing competition, including in their home market, from their Japanese and European counterparts. The VBEs’ golden age began in the 1980s, when political context and technological potential coincided to make the

management of truly global enterprises possible. In parallel, VBEs became a worldwide pressure group with a major influence on the agendas not only of Governments but also of international organizations.

The ethos of efficiency became universal, providing a supra-cultural basis on which professional and technical knowledge began to be shared among people from different cultural origins, but inspired by the same ambitions and ethos. Falling on this fertile ground, the ethos of efficiency was then further spread by a growing number of business schools and inculcated in a new generation of people eager to have their share of the economic success of international business. By doing so, business schools developed a whole range of new fields of professional knowledge rooted in and inspired by the ethos of efficiency. Today this knowledge has, at least partially, achieved scientific status.

Enterprises are, by definition, social organizations capable of rapid evolution in response to changing conditions and therefore are often seen as organizational innovators. Undoubtedly, VBEs have played this role and, have thus contributed to the acceleration of globalization. Three main lines of organizational innovation – in the broad sense – deserve to be mentioned here: the move from product to service, the “invention” of intangible assets as forms of capital deserving remuneration, and the growing capacity of VBEs to organize the work of others and thus avoid the commitment of their own capital.⁶ Each of these has fundamentally affected the modes of interaction between the VBEs and their social and economic environment, and in consequence has contributed to redesigning the set of corresponding interdependencies.

Paradoxically, the new interdependencies threaten the proper functioning of the market mechanism, and by doing so put in question the quality of allocation of resources realized worldwide under the auspices of globalization. This point is clearly illustrated by the differences in capital productivity between VBEs that have easy and cheap access to capital and non-listed enterprises, not to mention the poorest countries, many of which are highly indebted.

Some fields of human activity are more prone to globalization than others. It seems that less globalized activities may be condemned to bear the whole burden of adjustment to changes imposed by the more globalized layers of human activity. Therefore, the apparent interdependencies between activities of differing levels of globalization tend to turn into asymmetrical relations whereby less globalized activities become dependent on more globalized activities. This is true among enterprises, where the competitive advantage of the global VBEs increases the strength of their position with respect to their smaller and more local partners and suppliers, and it is also true for countries linked together by the activities of the biggest enterprises. There is an analogy, but not a complete identity, between this conclusion and the reading of globalization in terms of the “centre versus. periphery” paradigm.

The transformation of interdependencies into genuine dependency relationships brings the question of power to the forefront. Power is an integral part of globalization and has to be addressed explicitly. This necessity is barely acknowledged today and the VBEs structure the world economy (and society) in a political vacuum, where transnational regulations either do not exist or are purely functional. In this sense there is a growing and urgent need to fill the vacuum with appropriate governance solutions. This being said, when putting in place these solutions one should be careful not to give to purely economic and efficiency-seeking considerations an overwhelming weight in social life. A successful international architecture could help prevent whole societies from becoming consenting slaves of a holistic design whose ideological and anthropological roots could be called “*économisme intégral*”.

⁶ Dembinski (2001).

Globalization is only one dimension of this design, one step on the road to a fully market– or to use George Soros’ words – a purely transactional civilization.

The challenge of governance has to be addressed from two extremes: one is institutional design, and the second is acknowledgement by growing circles of persons and organizations that we all have a responsibility to work for the common good, which extends far beyond the purely economic dimension. At this stage of the analysis, initiatives that aim at increasing enterprises’ awareness of their corporate social responsibility come to the fore. Such initiatives blossom across the whole spectrum of organizations: NGOs, enterprise associations and international organizations. These initiatives de facto pose the fundamental and normative question about the genuine nature of the enterprise: is it only an instrument for extracting profits and shareholder value by capital owners or is it a community which has to concern itself with the harmonious development of all its members?

As long as the “ethos of efficiency” prevails unchallenged, there is no reason why the gap should narrow between the North and the South. But the recent extension of corporate social responsibility concerns may well lead to the consolidation of an “ethos of humanism”. It is too early to say whether these changes will suffice to change the present trend. But unless it happens, the different worlds will fall apart.

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CSR and reporting for development

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In this session we have been asked to assess the momentum and drivers associated with CSR and reporting, and consider how these developments affect the relationship between enterprises and society. I will focus more on this latter aspect by drawing on research which UNRISD has been conducting in recent years on CSR and its implications for development.

Drivers and institutions

The types of economic, social and political conditions and pressures that are driving CSR are well known and many are identified in the UNCTAD report circulated for this meeting (UNCTAD, 2003a). They include civil society and regulatory pressures, the so-called business case for CSR (e.g. risk management, competitive advantage and possible cost reduction), and the growth of ethical investment and ethical consumerism.

I'll limit myself to two points regarding drivers.

First, let's not forget what might be called the "indigenous" drivers of CSR in developing countries. CSR hasn't just been imposed from the outside. Developing countries have their own CSR history and dynamics. The problem, however, is that so much analysis of drivers identifies factors relevant to the contemporary "northern" CSR agenda.

In Brazil, South Africa and the Philippines, for example, CSR emerged, not in the 1990s but in the 1970s–80s, as a sort of third way in a context of revolutionary threats and/or repressive regimes. Progressive religious influences were also important. The very different types of enterprise forms in developing countries – often family-owned enterprises rooted in specific localities – have given rise to certain ethical or paternalistic practices relevant to CSR. East Asian traditions that place a high value on secure employment and welfare provisioning by companies are other aspects of CSR that often get overlooked.

Second, we are now moving beyond the stage where various actors and pressures have been building up steam and forcing CSR onto the international agenda. The current situation suggests that CSR is now becoming institutionalized and, in the process, is being locked into the system.

What we are seeing is the emergence of new coalitions of interest groups and a new institutional complex that serve to deepen and spread the CSR agenda. Particularly relevant are the so-called international multistakeholder initiatives (such as ISO 14001, SA8000, GRI, ETI, FLA, FSC, the Global Compact and Global Framework Agreements). In addition to standard-setting, reporting, monitoring, auditing and certification, other institutional arrangements such as socially responsible investment (SRI), fair trade and public–private partnerships also reinforce the CSR dynamic.

There is some talk these days of a CSR or reporting backlash due to such things as the global economic environment and the risks of litigation. These conditions may dampen some aspects of CSR in some companies, sectors or countries, but given the political and institutional forces that are now lining up in favour of CSR, the CSR movement is likely to gather momentum.

The question, then, is not so much whether CSR is here to stay but rather, what difference, if any, does it make to development. A further, related question is how do these drivers compare with those that are propelling underdevelopment and corporate social irresponsibility.

Does CSR promote development?

The research we have been conducting at UNRISD has been largely concerned with the developmental implications of the CSR agenda.

The mainstream CSR agenda tends to concentrate on ways of improving the quality, scope and scale of voluntary initiatives associated with fairly specific aspects of social and sustainable development. These relate primarily to environmental and labour issues and community development.

The basic assumption underpinning this agenda is that what is good for the environment, or workers, or communities, is good for development.

As I'll explain later, this assumption implies a fairly narrow interpretation of the development problem.

Since CSR is primarily concerned with these aspects, efforts to promote development through CSR have centred largely on attempts to improve the quality, scope and scale of codes of conduct, environmental management systems, occupational health and safety; reporting, auditing and certification related to companies' social and environmental performance; community development projects and philanthropy.

As time is limited, I won't say much about these attempts – just that it is important to engage in a constant reality check given the tendency in this field for the rhetoric regarding the proliferation of best practices and win-win scenarios to race ahead of the reality.

If we take the universe of firms or even just TNC affiliates, for example, we can see that only a very small proportion are involved in some of the high-profile CSR initiatives (see table 1).

Table 1. TNCs, certification and reporting

Category	Number	Date
No. of TNCs	64 000	2002
No. of affiliates	870 000	2002
ISO 9000 certification	561 747	December 2002
ISO 14001 certification	49 462	December 2002
SA 8000 certification	259	August 2003
GRI guidelines (GRIG):		
- using GRIG	313	September 2003
- "in accordance" with GRIG	15	September 2003
Global Compact	1 240	September 2003

Sources: UNCTAD (2003b); ISO, SAI, GRI and Global Compact websites.

It should be noted that some of the larger CSR initiatives, such as ISO 14001, have progressed at a much slower pace than other corporate responsibility initiatives such as ISO 9000 certification.

Some important methodological and procedural advances have taken place in relation to standard setting, monitoring and verification but, as the UNCTAD report notes, the implementation of codes of conduct and the quality of reporting are subject to serious limitations (Ascoly and Zeldenrust, 2001; Bendell, 2001; Jenkins, 2002; O'Rourke, 2000; Utting, 2003; Zadek, 2001; UNCTAD, 2003a).

The nature and the scale of these problems suggest caution in relying excessively on regulatory systems based on reporting, auditing and certification. In relation to TNCs, is it really feasible to develop a global system of regulation that centres on trying to monitor numerous aspects of corporate activities, throughout vast corporate structures, that are spread all over the world? The scale is daunting. So too are the complexity of reporting and if done in a meaningful way, monitoring, and the range of skills required, to say nothing of the costs involved (Utting, 2002).

The limitations of scale and quality of CSR initiatives are only one part of any assessment of the developmental impacts of CSR. The other is that which has been pointed out by UNCTAD, namely that the CSR agenda hasn't paid sufficient attention to other aspects of development (UNCTAD, 2001; UNCTAD, 2003b). In this year's *World Investment Report*, attention is focused on what might be called the textbook impacts of FDI, namely taxation, employment, technology transfer, linkages, infrastructural development and reinvestment of profits in the host country. This type of analysis serves as an important reminder to the CSR community.

But the reminder needs perhaps to go even further. If we are concerned with the developmental implications of CSR there is another aspect that needs to be considered.

Structural dimensions of underdevelopment

This concerns the structural dimensions of underdevelopment or maldevelopment, and the question of how corporations relate to these dimensions. This analysis takes us into the realm of corporate power, lobbying, unsustainable investment and consumption patterns, and double standards.

Let me give some examples.

Research we have commissioned on **UN-business partnerships** suggests the need to rethink UN-TNC partnership relations because of the way in which such relations can reinforce corporate power, competitive advantage and political influence to the disadvantage of developing countries and SMEs. This research also exposes the double standards involved when TNCs engage in CSR initiatives but simultaneously lobby for a macro-policy regime that can have very perverse developmental impacts (Zammit, forthcoming). The elements of concern in such a regime include, TRIPS; a non-level playing field for deregulation and liberalization, or forms of liberalization that increase the vulnerability of developing country economies, firms and people; and resistance to the principles of both special and differential treatment, and the autonomy of developing country Governments to determine their own policies in accordance with their own democratic processes, needs and priorities.

Research at the country level has exposed other major gaps in the mainstream CSR agenda.

In **Chile** several large mining companies are engaged in a range of CSR initiatives to improve EMS, workers' health and safety, education and community development projects. But this perspective ignores one of the major development problems related to mining, namely the fact that some TNCs not only have managed historically to avoid paying both taxes and royalties, but also have encouraged intra-corporate financial flows that result in the indebtedness of mining affiliates, overinvestment, overproduction, and declining world copper prices. At the same time this system generates massive outflows of revenues to service loans from financial affiliates in offshore havens.

In **Brazil**, research has shown that an increasing number of business associations and companies are taking on board CSR issues, but one of the key development problems has barely featured on the agenda. This relates to the social effects of labour market flexibilization and the three related problems of unemployment, the unravelling of labour rights and the decline in labour standards associated with

subcontracting. Until recently the mainstream CSR in Brazil agenda largely bypassed these issues (Cappellin and Giuliani, forthcoming).

In **Mexico**, environmental certification and improvements in environmental management systems are taking off, but from the point of view of sustainable development there are worrying trends related to the increasing investment in pollution-intensive industries and the relocation of plants to semi-arid, environmentally fragile areas, where, incidentally, environmental regulation is often weaker than elsewhere. These aspects do not really figure in the mainstream CSR agenda in Mexico. Neither does the dramatic fall in real wages over the past two decades (Barkin, 1999).

In the **Philippines** research on the food and beverage sector has shown that the CSR agenda ignores key issues to do with ethical marketing and consumption patterns. WHO recently brought out a report that demonstrates clearly the linkages between increasing consumption of fast foods and soft drinks and the rise of chronic diseases such as diabetes, obesity and cardio-vascular disease, which currently kill more people than any other illness (WHO, 2003). In the Philippines we found that the largest transnational soft-drink company is fairly active in relation to environmental improvements and community projects. At the same time, however, it is actively branding itself as a company that produces drinks that not only taste good and are good fun (which we would expect), but also are fine from a health and nutritional point of view. Its promotional material systematically attempts to debunk the negative health claims associated with carbonated soft drinks. It also projects the message that in poor countries, such drinks – or one in particular – may be healthier than water. This message is being targeted to hundreds of thousands of schoolchildren each year.

In **China** a key issue for SMEs is who pays for improvements in standards in TNC supply chains. Until recently the mainstream approach of corporate headquarters focused more on “policing” CSR improvements than “shared responsibility”. Furthermore, suppliers often find themselves in a sort of straitjacket, with CSR departments demanding more in terms of CSR standards and expenditures, while purchasing departments of the same corporation insist on tighter margins and delivery schedules (Utting, 2003).

What these examples illustrate is that the mainstream CSR agenda has tended to focus on fairly narrow aspects of development and has ignored some of the basic development issues to do with corporate power and policy influence, the perverse effects of flexibilization and liberalization, unsustainable investment and consumption patterns, and double standards.

In relation to CSR reporting, the question therefore arises, what exactly are we reporting on? The above concerns suggest a number of avenues and alternatives.

1. **Diagnosis and indicators.** If the CSR agenda and reporting processes are failing to address key aspects of development, there is probably something wrong with the diagnosis. The GRI’s current concern with sectoral analysis is important. Clearly, the nature of the developmental problem varies considerably from sector to sector. But there are doubts as to the extent to which company-led analyses of the problem will reveal the full nature of the developmental problems that need to be addressed. The current attention to independence in monitoring should probably extend also to diagnosis. More work needs to be done on indicators that would provide information directly relevant to the developmental concerns identified above – particularly “hard core” data and indicators related to wages, court cases, taxation, collective bargaining agreements, profit reinvestment and profit repatriation, and payments to political parties, Governments and others.

2. **Integrating southern concerns.** It is important to pay more attention to the cost implications of CSR for developing countries and for SMEs, and the questions of who pays and how responsibility can be shared. There needs to be greater participation by southern actors in shaping the CSR agenda and in international multistakeholder initiatives. There should also be greater recognition that “indigenous” CSR practices and processes exist in most developing countries. These need to be acknowledged and facilitated, and not bypassed by a “one size fits all” approach which is largely imposed from the outside (Kemp, 2001).
3. **Complaints procedures.** It is important to strengthen alternative regulatory approaches that focus on specific complaints or abuses of standards rather than put too many eggs in the basket of trying to report on, monitor and audit the broad range of corporate practices and impacts. Complaints-based systems of regulation can be organized within the framework of very different institutional arrangements – for example, traditional collective bargaining agreements or the new Global Framework Agreements with international trade union organizations, watchdog NGOs, civil society campaigns, strengthening the complaints procedures associated with multi-stakeholder initiatives, litigation, ombudspersons, and UN special rapporteurs.
4. **Rearticulating voluntarism and law.** The CSR agenda has been largely concerned with proclaiming the virtues of voluntary approaches. There needs to be a new articulation or mix of regulatory approaches (Utting, 2003; Bendell, 2003). WIR 2003 identifies several possibilities, and so does the UNCTAD report circulated for this meeting. The “corporate accountability movement” has put forward other proposals which need to be considered. Several stress the role of international soft law or regulatory organizations (for example, UN human rights norms for TNCs, EU Code of Conduct, Corporate Accountability Organization). Some suggest strengthening or extending the remit of existing institutions such as the OECD Guidelines for MNEs, the ILO Principles concerning MNEs, the International Criminal Court and mandatory accounting. Others (such as the International Right to Know Campaign) involve attempts by civil society organizations to promote disclosure related to the overseas operations of certain TNCs. Such proposals not only attempt to address the basic free-rider and enforceability problems that beset voluntary approaches, but also bring back to the agenda certain issues that have been largely off limits, namely the structural and policy determinants of global poverty and inequality, and their relationship to big business.

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Acronyms

CSR	corporate social responsibility
ETI	Ethical Trading Initiative
EU	European Union
FDI	foreign direct investment
FLA	Fair Labor Association
FSC	Forest Stewardship Council
GRI	Global Reporting Initiative
ILO	International Labour Organization
ISO	International Organization for Standardization
MNE	multinational enterprise
NGO	non-governmental organization
SAI	Social Accountability International
SMEs	small and medium-sized enterprises
SRI	socially responsible investment
TNC	transnational corporation
UNCTAD	United Nations Conference on Trade and Development
UNRISD	United Nations Research Institute for Social Development
WHO	World Health Organization

Scope of corporate social responsibility in developing countries

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Executive summary

Corporate social responsibility (CSR) is the initiative by businesses to invest a part of their profit for the welfare of society in order to portray a positive public image and create an educated consumer base. It is a commitment by businesses to contribute to sustainable economic development and to work with employees and their families, the local community and society to improve the quality of life. There is now increasing awareness that ignoring environmental and social risk factors might tarnish a corporation's image and thus value in the market. Thus CSR is gradually becoming a core practice in corporate culture in developing countries, creating new scope for partnership between the public, private and non-profit sectors for economic development and social and environmental awareness.

Developing countries are fighting multiple dimensions of poverty: lack of basic necessities such as education and health services, unemployment and low standards of living. Multinational companies (MNCs) as well as local business enterprises in the developing countries are undertaking CSR in varying degrees in local business operations to address such issues. Multinationals or transnational companies are the major investors in the developing countries through foreign direct investment (FDI). CSR ensures maximum positive and minimum negative impacts of FDI. Many companies, especially local corporations and MNCs operating in Bangladesh, are placing greater emphasis on the role that they can play as "responsible corporate citizens". In a country like Bangladesh where social institutions are still evolving, the corporate entities have to show more commitment. As it is still not an obligation for businesses, CSR reporting in the true sense is missing from corporate reporting. However, MNCs are involved in CSR because of global commitment by their corporate parent in this area. This practice can make the MNCs an effective tool to fight poverty in Bangladesh, where about 60 per cent of the population lives in poverty. CSR has the scope for a tremendous impact on society. It can help curb social unrest to a great extent, and raise the quality of life of the poor.

Ideally, companies should earn profits to keep their business healthy and contribute to society. There should be a system to offer tax benefits to those corporate bodies that carry out their social responsibilities. Eminent personalities can take initiatives to mobilize philanthropic works through trusts and charities in a structured way. As donor funds are drying up, NGO microfinance institutions (NGO MFIs) and community organizations in the developing countries are finding it difficult to carry on their social development programme (SDP). In order to carry on such programmes, MNCs and national business enterprises can establish a road map in a coordinated way to facilitate the social-needs based programmes. The Philippines Business for Social Progress (PBSP) is an example of the umbrella model. PBSP was a means by which the Philippines business community was able to rationalize and coordinate its funding and technical support to socio-economic projects and programmes across the country.

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NGO/Community enterprises partnership is one of the ways in which big corporate houses along with the NGO partnership can supplement government efforts in the fight against poverty. The Philippines Business for Social Progress (PBSP) is exemplary in this context. For a country's sustainable development, shared responsibilities between the Government and the business community are necessary. The Social Marketing Company (SMC) is one of these initiatives in Bangladesh. CSR is a business essential as it helps a company to build a good, open and honest reputation that enables it to survive crises even in a competitive market, thanks to public support.

Introduction

At the beginning of the new millennium, a number of high-profile corporate failures put pressure on the business community to increase the effectiveness and transparency of its corporate governance practices. Similarly, in the late 19th century, companies realized that in order to raise external finance, they needed to supply the market with reliable financial information. Historically, the increase in corporate disclosure and transparency has resulted not from legislation, but from wider pressures from the business community and society. In recent times, corporate reporting has not been restricted to traditional financial performance measures, but has also encompassed use of environmental and social indicators to assess the full impact of a company's activities. A relatively new and rapidly growing phenomenon in developing countries and more widely practised in the developed nations, corporate social responsibility is the initiative by businesses to invest a part of their profits for the welfare of society in order to portray a positive public image and create an educated consumer base. It is a commitment by businesses to contribute to sustainable economic development and to work with employees and their families, the local community and society to improve the quality of life. There is now increasing awareness that ignoring environmental and social risk factors might tarnish a corporation's image and thus value in the market. Thus CSR is gradually becoming a core practice in corporate culture in developing countries, creating new scope for partnership between the public, private and non-profit sectors for economic development and social and environmental awareness.

CSR in the developing countries

Businesses around the world, both in developing and developed countries regardless of their size and specialization, leave a considerable social, environmental and economic impact on the communities in which they operate. Yet in today's highly competitive global economy, the importance of ensuring "positive impact" can be crucial to both corporate reputation and business success.

Developing countries are fighting multiple dimensions of poverty: lack of basic necessities such as education, health services, hygiene, sanitation and drinking water. Poverty level is high in many countries because low economic growth makes it impossible to create sufficient employment. Even among those employed, the quality of life is poor. Multinational companies (MNCs) as well as local business enterprises in the developing countries often undertake CSR in varying degrees in local business operations in the following areas to address poverty and unemployment, and to increase quality of life:

- **Environmental protection**, such as reduction of emissions and waste, the recycling of materials and afforestation programmes;
- **Philanthropy**, such as donations to charities;
- **Involvement in social causes**, such as human rights awareness and AIDS education;
- **Urban development** through partnership with local government to regenerate small businesses and the inner-city environment;
- **Investment in local businesses** through partnerships with NGOs on poverty alleviation and social development programmes, religious institutions and social clubs; and

- **Employee schemes**, such as provision of higher occupational health and safety standards, equal employment opportunities, job sharing and flexi-time.

MNCs or transnational companies are the major investors in the developing countries through foreign direct investment (FDI). FDI flowing to developing countries has the potential to make an important contribution to the development of local economies through job creation, capacity building and knowledge transfer. Governments raise considerable revenues from these businesses through corporate tax, excise duties, value-added tax and property tax. These increased revenues enable Governments to spend more on public services. In addition, many companies have committed to CSR programmes that help to deliver much-needed social development that Governments find difficult to offer.

However, there is concern that increasingly globalization and FDI will result in compromised labour and environmental standards, increased societal inequalities and severe competition for emerging local industries. A major challenge is to maximize the positive impact and minimize the negative impacts of FDI. While the main focus on CSR in developing countries has been on multinational companies, there are growing implications for all sizes of locally based companies. Local businesses are facing challenges because of globalization. Within this challenging environment, market forces and other factors often reward business practices that have a negative social and environmental impact. Increasingly, however, developing country businesses recognize that CSR makes good business sense and can yield a competitive advantage. For example, foreign customers, especially MNCs and markets, are increasingly seeking suppliers with high standards of CSR. The United Nations' drive to make multinationals legally accountable for their investment practices abroad, including the adoption of acceptable labour and environmental standards, is certainly a welcome first step.

However, on the flip side of the coin such business, especially MNCs generating high revenues for the Government, can make it a puppet of its own self-interest, avoiding any social responsibility at all by focusing only on the bottom line. Businesses can choose to avoid CSR because they have no clear obligation. Being inexperienced and ignorant in new business sectors, the developing countries can give MNCs leeway to escape obligations as the scope of liability is not precisely defined in their agreement with the Government. The damage claim for compensation by Petrobangla on behalf of the Bangladesh Government from UNOCAL Corporation's subsidiary in Bangladesh arose from a lack of specific agreement regarding damages. In July 2002, the subsidiary UNOCAL Bangladesh Blocks Thirteen and Fourteen Ltd., formerly known as Occidental of Bangladesh Ltd. ("OBL"), received from the Bangladesh Oil, Gas & Mineral Corporation ("Petrobangla") a letter claiming, on behalf of the Bangladesh Government and Petrobangla, compensation of \$685 million. The compensation claim was for 246 BCF of recoverable natural gas allegedly "lost and damaged" in a 1997 blowout; known as the "Magurichara blowout", and the ensuing fire during the drilling by OBL, as operator, of the Moulavi Bazar #1 exploration well on the Blocks 13 and 14 Production Sharing Contract (PSC) area in Sylhet, north-eastern Bangladesh. UNOCAL believes that the claim vastly overstates the amount of recoverable gas involved in the blowout. Consistent with worldwide industry contracting practice, there was no provision in the PSC for compensating the Bangladesh Government or Petrobangla for resources lost during the contractors' operations. Subsequently, however, in the Supplemental Agreement such a clause was included. However, even if some form of compensation were due, UNOCAL believes that settlement compensation for the blowout was fully addressed in a 1998 Supplemental Agreement to the PSC. Bangladesh has learnt a lesson the hard way. Inexperience and lack of knowledge failed to secure the best deal protecting Bangladesh's own interest.

The bottom line for any business is profit. This leads one to think about corporate ethics, staff welfare and the well-being of the society in which an enterprise does business, and thus to think about CSR, the second component of what is often called a "double bottom line" for businesses. CSR leads to enhanced public relations, projects a positive image for the company and contributes to an increase in

the sale of its products or services. Hence corporate social responsibility pays off. As national corporate houses are gradually becoming financially sustainable, capital markets are becoming healthy; these beneficial aspects are driving them towards CSR. Also, in the developing countries, NGOs and human rights organizations in their societal watchdog role are pushing towards sustainable CSR. In the developing countries, society as a whole is not aware of CSR concepts. Regulatory bodies are not active. Foreign investors can take this opportunity to make a profit by compromising social and environmental impacts. It is a welcome trend that these concepts are being publicized through the media, civil society, NGOs and human rights organizations. As a result, even the local corporate houses are becoming conscious of their CSR.

Social investments in Bangladesh

Many companies, especially local businesses and MNCs operating in Bangladesh, are placing greater emphasis on the role they can play as “responsible corporate citizens”. They are embracing a social, ethical and environmentally responsible approach to business activity. For instance, since the Magurichara debacle, the MNCs in the energy sector have become even more conscious of this role. By recognizing their wider responsibilities, companies now accept that they are accountable to a wide range of stakeholders in addition to shareholders, including business partners, employees, customers, suppliers and community groups. Some examples of CSR investments in Bangladesh are given below.

British American Tobacco Bangladesh (BATB). As tobacco products pose risks to health, BATB is aware of its significant CSR. BATB is a pioneer corporate house in Bangladesh in initiating a social reporting process in April 2002 through formal dialogue with its external stakeholders to understand their views and concerns on issues concerning the tobacco industry in general, and the company in particular. It is the first company in Bangladesh to have prepared a social report (in September 2003) that meets the rigorous global benchmarks of the AA 1000 standards and the United Nations Foundations sponsored Global Reporting Initiative (GRI) guidelines. The company has opted to work with both, and more importantly, has sought independent verification of the integrity of social reporting process from Bureau Veritas Quality International (BVQI). BATB has also established a formal CSR committee within the company. Eight facilitated dialogue sessions were held in two stages in three areas, including Dhaka, the national capital. Issues raised by stakeholders were grouped into ten main categories: (i) consumer information, (ii) public smoking, (iii) lower-risk products, (iv) youth smoking prevention, (v) responsible marketing, (vi) tobacco regulation, (vii) tobacco taxation and cigarette pricing, (viii) environmental management, (ix) corporate citizenship, and (x) corporate governance.

During the dialogue sessions the stakeholders indicated that they were aware of the contributions being made by BATB to the Government in excise revenue. They suggested that business be diversified and more job opportunities created. Stakeholders listed a number of expectations regarding the role of BATB in CSR which are wide and varied. Six main themes emerged: (i) BATB’s role as a development partner, (ii) corporate sponsorship and poverty alleviation, (iii) support to tobacco farmers, (iv) supporting health programmes, (v) support to education programmes, and (vi) eliminating child labour. However, BATB’s corporate citizenship has a much wider reach. It is involved, through various projects and initiatives, in improving the environment, supporting philanthropic organizations, promoting art and culture, and assisting with disaster relief.

GlaxoSmithKline (GSK): GSK is one of the world’s leading pharmaceutical companies. Its global quest is to improve the quality of human life by enabling people to do more, feel better and live longer. In Bangladesh GSK is continuing its support to a hospital ward and play corner for children with leukaemia in Chittagong Medical College Hospital, managed by Children Leukemia Assistance & Support Services (CLASS). They have an awareness programme about hepatitis B and vaccine-

preventable diseases in association with different social welfare organizations such as Sandhani, Rotary, Lions and Badhon.

Lafarge Surma Cement Ltd. In Bangladesh Lafarge Cement is setting up and expects to complete the construction and erection of cement plant by 2005. Massive landfilling and site development work has been completed on the 90-acre plant site. At the same time, Lafarge is implementing a comprehensive action plan to support the people and local communities, who were impacted by this project. Through a Resettlement Action Plan the affected people received better than normal financial deals. The families are resettled in a new village, in new houses with basic amenities. The villagers are owners of the houses and a piece of land. There is a Community Development Centre which provides medical care, training programmes on income-generating activities such as cattle breeding and weaving, and basic education to the villagers, especially women and their children.

Nestlé. As Nestlé has grown from humble beginnings into a corporate giant, it has attempted to take the fundamental cultural values of environmental preservation and cleanliness to every country in which it operates. In Bangladesh, apart from donating money to various orphanages, Nestlé also held a dengue prevention march. This seems to be the perfect way of creating awareness among the people about dengue prevention measures. People tend to consider Nestlé to be more than a dairy marketing company. Nestlé organized a day-long Nido Fair in Bogra last year. It may have been launching a commercial campaign, but imparting nutritional facts about baby-food to the people is certainly an important social responsibility.

Sheltech (Pvt) Ltd. This leading real estate developer views business as a tool not only for generating profit, but also for exploring new avenues and launching new products. It is committed to providing better service to its clients. How is Sheltech performing or contributing to CSR? It is involved in the development of the country's games and sports, and in particular is supporting badminton and tennis. The Sheltech Award, introduced in 1978, is the most talked-about award in the country. This is an award for the leading writers, singers and cultural personalities who are devoting their best efforts to establishing healthy trends in the country's literature and cultural arena. In their real estate development projects, Sheltech takes care of the environment.

Shell. Shell focuses on delivering products that are safe for people and the environment. In Bangladesh, the Shell Bangladesh Exploration and Development B.V. is also dedicated to the fundamental health, safety and environment (HSE) related principles, foremost of which is to pursue the goal of no harm to people while protecting the environment. Shell also works with the World Conservation Union (IUCN) to encourage and help societies to conserve the integrity and diversity of nature and ensure that natural resources are used in a fair and ecologically sustainable way. Shell is the first energy company to establish a biodiversity standard. It commits all Shell companies to respect protected areas, maintain ecosystems and contribute to conservation. Shell has shown that it can meet this standard in projects from Gabon in Africa to the Stanlow refinery in the United Kingdom.

UNOCAL Bangladesh. Approximately, 420 people work for UNOCAL Bangladesh, of whom 98 per cent are Bangladeshis. Corporate responsibility is fundamental to UNOCAL's core values. In Bangladesh, UNOCAL has been active in community improvement for several years, investing more than one million dollars in a wide variety of activities and programmes primarily focused on education, health care and social welfare in the Greater Sylhet areas where its gas fields are located. In 2002, UNOCAL entered into long-term alliances with several leading humanitarian organizations that are dedicated to the principles articulated in UNOCAL's vision – "to improve the lives of people wherever we work". These organizations include Habitat for Humanity, the Nature Conservancy, the International Youth Fund and the International Institute for the Rights of the Child. Through these and

other alliances, UNOCAL expects to improve the effectiveness of its corporate responsibility activities and help empower local communities in Bangladesh as well as in Indonesia, Myanmar and Thailand.

Standard Chartered Grindlays Bank. Standard Chartered's CSR activities are of two types. One type includes community development centred on health, education and youth. Standard Chartered encourages its employees to take ownership of such projects and get involved in these activities. It has a number of community activities in Bangladesh, amongst which is its involvement in the Islamia Eye Hospital at a significant level. Through the "sight savers" scheme SCB is encouraging poor people to have eye operations at subsidized rates.

Berger Paints. Berger has partnership programmes with a few NGOs helping to rehabilitate disabled people through different income-generating activities.

Grameen Phone. Grameen Phone is trying to promote information technology as an integral part of poverty alleviation agenda. It provides mobile phones to target poor people at a price 50 per cent lower than the market price.

Singer Bangladesh. Singer Bangladesh is helping low-income young women learn sewing and to earn the Singer Diploma, which helps them manage their own lives. Some of them take up self-employment, while others join enter the garment industries.

Reckit Benkizer. This company is contributing to healthy living through preventive health care all around the world. The Bangladesh regional office is aware of the concept and this aspect of corporate behaviour, but there is no particular policy in this connection.

As we can see, MNCs are trendsetters in business–social partnerships in Bangladesh. In a country such as Bangladesh, where social institutions are still evolving, the corporate entities have to show more commitment. Companies can be involved in projects that assist college and university graduates through internships in preparing themselves better to succeed in the workplace. With the exception of a few MNCs the corporate sector in Bangladesh is lagging far behind in this respect. Businesses can also be of immense assistance in combating the national problem of youth unemployment, a problem that spirals into poverty, social alienation, criminal behaviour and wasted potential. By encouraging an entrepreneurial culture among young people, businesses, often in partnership with specialized youth enterprise organizations, for example Micro Industries Development and Assistance Services (MIDAS), can give young people the opportunity to gain life skills, self-esteem and employability.

There is a need for growing emphasis on CSR in countries such as Bangladesh. For example, allegations that they profited from sweatshops in the supply chain forced apparel companies to look at human rights concerns in Bangladesh. Increasingly, customers, employees, business partners, civil society and the Government demand that the companies take an active role in social, environmental and community activities. For instance, "Bangladesh Paribesh Andolon", the environmental movement, has made it possible to discontinue the use of polythene bags as well as of pollution-emitting baby-taxis.

As there is no obligation for businesses with regard to CSR reporting, it is still missing from most corporate reporting processes. However, as a result of the global corporate policy of many MNCs, they undertake CSR at local levels. National and local business enterprises are becoming familiar with CSR concepts, and they are participating in the promotion of sports, art and culture.

However, the reality in Bangladesh is that the vast majority – about 60 per cent of the population – live below the poverty line. Therefore, CSR has the scope for a tremendous impact on society.

Grameen Bank (GB) is the pioneer in introducing a successful microcredit programme (MCP) in Bangladesh and also to the world. Other MCPs, including ASA and BRAC, that help the poor fight against poverty and improve their life have successfully emerged and developed in Bangladesh and are replicated throughout the world. Bangladesh MFIs have two strategies: credit alone and credit plus. “Credit alone” provides only microcredit, for example GB and ASA. While credit plus combines social development programmes with MCP, for example BRAC and PROSHIKA.

Bangladesh has also introduced an apex model for financing MCP. The Government of Bangladesh has set up the Palli Karma-Sahayak Foundation (PKSF). PKSF operates through partner organizations (POs) which are non-governmental organization-microfinance institutions (NGO-MFIs), for reaching the poor. For a sustainable MCP, PKSF is monitoring the NGO-MFIs’ microfinance activities according to their norms and performance standards. PKSF has about 190 POs, including BRAC, ASA and PROSHIKA, throughout Bangladesh, covering about 4 million members and has disbursed about US\$ 300 million for MCP. PKSF also gives loans for institutional development of the POs. On the whole, the microcredit sector has reached more than 10 million people. More than 90 per cent of MCP borrowers are women. Some of the MCP borrowers are climbing the ladder towards micro, small and medium-size enterprises (MSME). Collectively, microenterprises may be a threat to the environment, and so PKSF has an environmental, health and safety risks policy to be followed by scaled up microenterprise borrowers.

Therefore, for the smooth growth of MSME there is a need for Business Development Services (BDS) and backward and forward linkages with mainstream large business houses. PRAN, an agro-based industry, is linked with the grassroot producers, and BRAC’s dairy products are linked with cattle rearing by farmers. BRAC’s Aarong marketing outlets are linked with handicrafts and materials produced by rural poor artisans and grassroots poor.

NGO-MFIs are working towards the goal of poverty alleviation and the Millennium Development Goal of halving poverty by 2015. To be successful, not only income poverty, but also other dimensions of poverty such as education and health, need to be addressed. This will help to raise people’s living standards. Through social development programmes NGO-MFIs can address those issues. Social development programmes do not generate income. Usually, it is supported by donor funding, cross-subsidization from MCP and insignificant CSR of MCNs. Therefore, for sustainable programme support CSR can have a pivotal role through a holistic approach.

Effective CSR extension modalities

There has been a radical change in the relationship between business and society. If CSR is integrated within the core business strategy, it is likely to remain strong. But CSR as a philanthropic add-on is vulnerable to cost cutting. The long-term success of CSR will be based on its ability to be positioned within the core of business strategy and development, thereby becoming part of business as usual. It means going beyond compliance, investing in private sector leadership, and deciding voluntarily to contribute to a better society. Socially responsible investment (SRI) by corporate houses can be effectively done through various kinds of partnership with the public sector, NGOs, civil society and the media, who can promote the interests of corporate citizens through poverty alleviation agendas. It can create opportunities for self-employment by promoting income-generating activities, and taking care of the living conditions of the poor people, waste disposal, the environment and so forth. CSR can help to curb social unrest to a great extent, and to improve the quality of life of poor people and urban dwellers. The requisite modalities are described below:

Creating a social development programme fund. Ideally, companies should make profits to keep their business healthy and contribute to society. Healthy profits keep company executives happy while

corporate philanthropy can contribute to better living standards and to the welfare of the people. There should be a system for offering tax benefits to the corporate bodies that are willing to carry out their social responsibilities. Eminent personalities can take initiatives to mobilize philanthropic works through trust and charities in a structured way. For example, The Prince of Wales's Charitable Foundation, established in 1979, distributes money each year to benefit a wide range of causes throughout the world; in 2000–2001 it donated £1.2 million to over 200 charities. Experience of business and community partnerships within the United Kingdom through Business in the Community led His Royal Highness to form the Prince of Wales Business Leaders Forum in 1990, as a focus for international business to work together in the global promotion of socially responsible business practices. It has 50 international member countries.

As donor funds are drying up, NGO-microfinance institutions and community organizations in the developing countries are finding it difficult to carry on their social development programmes. Multinationals often contribute to these programmes on an ad hoc basis. MNCs and national business enterprises can establish a road map in a coordinated way to facilitate the social-needs based programmes. Philippines Business for Social Progress (PBSP) is an example of the umbrella model, set up in December 1970 as a response by the Philippines Council for Economic Development, the Philippines Business Council and the Philippines Association for Social Action to the social unrest and economic downturn that characterized that year in the Philippines. Based on a Venezuelan programme of corporate social action, PBSP was a means by which the Philippines business community could rationalize and coordinate its funding and technical support for socio-economic projects and programmes across the country.

NGOs, community and enterprises partnership. NGOs are engaged in poverty reduction through income generation and different types of SDPs, especially in the rural areas. However, there are still problems not addressed at a macro level. Corporate houses can look beyond the traditional sponsorship system, supporting the NGO partnerships with business enterprise through community investment. This is one of the ways that big corporate houses, in partnership with the NGOs can supplement government efforts to combat poverty. PBSP is exemplary in this context. Although it is a corporate programme, it is essentially community-group-focused, using the community development model to reach its clients. Among other modalities it has a partnership with village-level NGOs involved in the delivery of community services. PBSP's credit-based income-generating programme (CIGP) involvement is therefore largely one implemented at arm's length through loans and grants to such organizations for CIGP purposes. PBSP also sees itself as being able to play an important part in poverty alleviation in the Philippines as a broker between micro-entrepreneurs in poverty and those domestic and foreign agencies in the formal modern economy that have resources currently denied the poor for one reason or another. In both the brokering role and as a direct lender to community based groups, PBSP channels resources that are on lent for income generation purposes. Between 1971 and 1987, an estimated US\$ 2 million was channelled to CIGPs, which is approximately one quarter of PBSP's total income for this period.

Public-private partnership can deliver better results. For the sustainable development of the country a sharing of responsibilities between the Government and the business community is necessary. The private sector will need to be engaged proactively. If both parties can successfully engage in a cooperative manner, things are bound to change. Globally, businesses are changing their directions. In today's world, the Government is not seen as a regulator but as a facilitator only, while the corporate houses are not judged as money makers and employment generators only. The Social Marketing Company (SMC) is one of these initiatives in Bangladesh. It combines Bangladeshi inspiration and hard work with USAID funding and technical support. SMC is a not-for-profit company that distributes 70 per cent of the condoms, 29 per cent of the birth control pills and 70 per

cent of the oral rehydration salts used in Bangladesh. Bangladesh's SMC is one of the earliest, largest and best-known social marketing programmes in the world. Other countries with social marketing programmes similar to Bangladesh's SMC include Zambia, Brazil, Egypt and many more. The SMC combines the best of the public and private sectors to deliver services and commodities to the poor. The contraceptives needed by low-income families, but otherwise beyond their economic means, come both from the public and private sectors. From the private sector comes an experienced, competitive, low-cost distribution network – the same one that provides products to the smallest villages, without any master planner directing distribution. The SMC takes donated contraceptives and uses private commercial channels to get them on the shelves of about 200,000 shops and pharmacies in every corner of the country. The Government of Bangladesh, through an agreement signed with the USAID, has made a commitment to donate contraceptives for SMC complementing the contraceptives that USAID and other donors also provide. Thanks to SMC's excellent low-cost distribution network, a person can obtain contraceptives more quickly and conveniently – without the need to wait in line or meet with a public health worker. This ready availability encourages contraceptive use and efforts to control Bangladesh's population growth and limit the spread of AIDS and other sexually transmitted diseases.

We all are concerned about poor governance. But governance will not be improved by the Government alone. We should incorporate the concept of shared responsibility in corporate and public strategies. Companies have to be aware of their involvement in SRI. For example, the business houses in the urban areas and the big cities could do more for the improvement of the cities. CSR can extend a helping hand to the city corporations for maintenance and cleaning of roads, public toilets, waste management and commercial hubs.

Conclusion

In the developing countries the Government alone cannot contribute significantly through allocation of tax revenue, logistics and human resources to support the well-being of society. Private-business-sector, socially responsible investment, NGO's and community-based partnerships are needed to supplement the Government's efforts to eradicate poverty. If CSR is looked at as another form of advertisement, it should be quite beneficial to business. A good reputation is the best form of advertisement in the modern world. This increases business opportunities and profitability. Moreover, if a company has created a good, open and honest reputation, it can survive a crisis; in fact, such a reputation is a business essential.

Acknowledgements

Information from “ The Financial Express”, national daily newspaper, Bangladesh

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British American Tobacco (BAT): Corporate Dialogue Report

Discussions with different MNCs mentioned in the paper.

Corporate social responsibility

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Corporate social responsibility (CSR), also known as business ethics, corporate citizenship, corporate accountability or sustainability, generally means “**achieving commercial success in ways that honour ethical values and respect people, communities and their natural environment**”.¹ It means addressing the legal, ethical, commercial and other expectations that society has for business, and making decisions that fairly balance the claims of key stakeholders. It involves socially responsible business operations and strategies, and is viewed as a comprehensive set of policies, practices and programmes that are integrated into business operations, supply chains and business decision-making processes throughout a company.

Three major pillars – **social, environmental** and **economic** – have been identified as the avenues through which CSR translates into society and through which it can be monitored and measured.

Corporate social responsibility implementation

Corporate implementation of CSR largely depends the size of the company, the sector, the culture and the commitment of its leadership. Some companies may choose to focus on one of the three major pillars, while others may integrate a CSR vision into all aspects of their operations. Implementation strategies include:

- **Mission vision and value statement.** The mission or vision of a socially responsible business frequently refers to a purpose beyond “making a profit” or “being the best”, and specifies that the business will engage in ethical and responsible business practices and seek to make decisions that balance the needs of key stakeholders, including shareholders/owners, employees, customers, suppliers communities and the natural environment.
- **Cultural values.** Expressing a CSR attitude with regard to the value statement may be a step towards implementation but is far from actual implementation. While companies have every right to set ambitious goals and aspirations and the freedom to be innovative and independent in their thinking, there must be a commitment to close the gap between what the company says it stands for and the reality of its actual performance.
- **Corporate governance.** Corporates could have the full board considering issues of corporate social responsibility or set up ethics and social responsibility committees of their boards to review strategic plans, access progress and offer guidance about emerging issues of corporate social responsibility.
- **Management structure.** A CSR management system is one that integrates corporate responsibility concerns into a company’s values, culture, operations and business decisions at all levels. This would best be achieved by following a process that allows the company to design a structure that aligns the company’s mission, size, sector, culture, business structure, geographical locations, and risk area with the CSR commitment.

¹ Business for Social Responsibility, 2003, <http://www.economicfootprint.org/index.php?id=402>

- **Strategic planning.** This implies the incorporation of CSR into the long-term planning process, identifying specific goals and measures of progress or requiring CSR impact statements for any major company proposals.
- **General accountability.** This involves facilitating the trickling down of CSR attitudes to every other level of the organization, and not just management, by addressing the issues in the job descriptions and performance objectives of as many employees as possible. All employees thus contribute to the company's overall efforts to be socially responsible.
- **Employee recognition and awards.** Reward and recognition have been identified as the major performance motivators and an enhanced CSR attitude can thus be promoted through the integration of CSR issues into the company's recruitment, promotion, compensation and public honouring system.
- **Communication, education and training.** The importance of corporate social responsibility can also be internally publicized by including it as a subject in management training programmes, arrangement of lectures and providing managers and employees with decision-making processes that help them achieve responsible outcomes.
- **CSR reporting.** Companies need to assess their social and environmental performance on a regular basis through annual reports preferably verified by external auditors. While this may not be as straightforward as financial reporting, efforts towards CSR reporting can build trust with stakeholders, encourage internal efforts to comply with company CSR goals, and be a gauge against which goals for improvement are set.

Corporate social responsibility impact on society²

The impact of any business organization on society depends on the policies and practices employed in its societal actualization through the following:

- **Employment.** Corporates' role as employers is one of the most important sources of Economic development. Companies employ people directly through permanent and contract employees and indirectly through their supplier and outsourcing contracts. Foreign firms' practice of depending on expatriates as opposed to local labour or discrimination in terms of treatment and remuneration between the two implies a very low regard for CSR or the society from and through which the company achieves its objectives.
- **Sourcing and procurement.** The economic impact of funds used in outsourcing and purchasing by corporations can be quite considerable. Sourcing from companies within the community could therefore stimulate economic development within the community.
- **Facilities siting and management.** Societies in which investing companies site their operating facilities receive a boost to their economies through the generation of local tax revenues, local business creation and employment opportunities. Such companies strengthen local revitalization efforts and support local organizations.
- **Financial investment.** Investment of funds by companies on either a short- or long-term basis results in various community benefits. Beneficial investment vehicles include the purchase of equity in the local stock market, doing business with community development banks or making investments in community development loan funds.
- **Philanthropy and community investment.** This involves targeting cash and resources towards activities that stimulate job and wealth creation in the community, such as job readiness training, affordable housing, small business development and expansion, economic revitalization, investment in youth education or community health enhancement. Companies do this by donating money to community development organizations, partnering with non-profit agencies and spearheading economic revitalization programmes.

² Business and Economic Development: The Impact of CSR Standards and Practices, by AccountAbility and Business for Social Responsibility with Brody, Weiser and Burns, June 2003.

Benefits of corporate social responsibility

- **Improved financial performance.** Research in this area of CSR has clearly identified a real connection between socially responsible business practices and positive financial performance.
- **Reduced operating costs.** Many initiatives aimed at improving environmental performance – such as reducing emissions of gases that contribute to global climate change or reducing use of agrochemicals – also lower costs. Waste disposal costs are also cut through recycling initiatives. CSR efforts on the human resources side, such as flexible scheduling, job rotation and other work life programmes, result in reduced absenteeism, increased retention of highly motivated employees, efficiency and effectiveness in productivity, and a reduction in hiring and training costs.
- **Enhanced brand image and reputation.** Socially responsible companies benefit from an enhanced reputation with the public as well as from a reputation within the business community, thereby increasing their ability to attract capital and trading partners, and identify a large niche in the competitive global market,
- **Increased sales and customer loyalty.** A notable return to appreciation of environmental purity and natural products has elicited a keen interest on the part of consumers in production processes and the impact of processes and products on the environment. While businesses must first satisfy customers' key buying criteria – such as price, quality, availability, safety and convenience – studies also show a growing desire to buy (or not to buy) because of other values-based criteria, such as lower environmental impact, and absence of genetically modified materials or ingredients.
- **Increased productivity and quality.** Companies' efforts towards social responsibility through their labour force and processes often lead to increased productivity and a reduced error rate. Efficiency and effectiveness are boosted by improved working conditions and increased employee involvement in decision-making.
- **Increased ability to attract and retain employees.** Socially responsible companies find it easier to recruit and retain highly qualified employees, thus minimizing recruitment and training costs. Employees are usually sourced from within the society in which the company is operating. CSR values will thus be in harmony with those of the employees, thereby eliminating any value conflicts and enhancing the operation environment.
- **Reduced regulatory oversight.** Companies that demonstrably satisfy or go beyond regulatory compliance requirements are given a freer rein by both national and local government entities. Such companies may experience fewer inspections and paperwork, and may be given preference or “fast-track” treatment when applying for operating permits, zoning variations or other forms of governmental permission.

Africa has been a recipient of a large number of CSR benefits, although these have been largely inclined towards philanthropic gestures and community investments. An increasing number of organizations are involved in efforts aimed at education and institutional support of orphaned, disabled and street children, and other disadvantaged communities. Barclays Bank, for example, used Kshs. 15.8 million in the year 2000 and Kshs. 20 million in 2001 in support of different sustainability activities throughout Kenya. DHL has also been involved in community support programmes aimed at assisting institutions offering child support. Mobil, which has been identified as one of the leading corporate philanthropists, donates a minimum of Kshs. 400,000 every month to institutions for the disabled.

Other efforts have been geared towards community health care, especially for the financially challenged, children and old peoples' homes. Involvement in various community projects such as water and sanitation provision, protection of endangered forests and other environmental measures has received significant support from organizations. Kencell Communications is one of the many corporates that have been in the forefront of such efforts in Kenya.

The education sector has received overwhelming support as increased donations are channelled towards the purchase of facilities and resources for schools. Support has also been received through scholarships for top performers and bursaries for the needy. The United States International University has in particular been instrumental in the scholarship area. Shell BP has also invested extensively in education through the donation of significant amounts of cash and materials to financially disadvantaged schools such as Starehe Boys Centre in Kenya.

Corporate responsibility efforts have helped boost community living conditions and social amenities, supporting community projects and sponsoring the growth of small and medium-sized enterprises through offering donations and start-up capital at subsidized rates.

Job creation has been a major benefit that Africa has reaped through both local and foreign sustainability measures. Organizations have absorbed a large number of people both directly and indirectly through suppliers and outsourcing contracts, thereby creating business opportunities. This has consequently boosted consumer power and impacted positively on the African economy. A large number of SMEs have thrived on the supply of resources and facilities, services and manpower to businesses.

CSR benefits have, however, not been reaped to full capacity owing to some identifiable weaknesses in developing countries that frustrate such corporate efforts, as well as attitudes held by foreign companies. Some factors affecting CSR implementation in Africa and other developing countries are described below.

Limited investment vehicles and undeveloped markets

While markets in developing countries are quite young and full of growth potential, their shallow and narrow capacity make them a poor investment choice for companies that have a option to invest funds in more developed foreign markets. Low trading capacities, the slow pace of the market and the limited stock options reduce the chances of community benefits from local market investment. In the East African region, for example, the Uganda Securities Exchange has trading sessions on only two days of the week, Tuesday and Thursday. The Dar-es-salaam Stock Exchange is active on three days, while the Nairobi Stock Exchange in Kenya, though active on all weekdays, has a two-hour trading session on each of the active days. A similar trend is evident on most of the African markets save for such large markets as the JSE Securities Exchange in South Africa. Most markets in developing countries also lack hedging facilities such as futures and options.

Other investment vehicles such as real estate and bonds are also quite undeveloped and unutilized.

Government policies and values

Some Governments do not uphold values that protect their citizens, or put in place policies which both local and foreign firms can follow in order to enhance CSR.

Most developing countries are well endowed with **minerals** and other **natural resources**, the mining of which may, however, result in serious environmental repercussions if not properly monitored. These natural resources have attracted a large number of foreign firms. Countries in their rush to earn money from these resources ignore the need to put in place the right checks and balances, thereby giving the firm a leeway to exploit the resources without the necessary supervision.

The **employment** sector has also faced similar problems. A lack of properly laid out policies has made it easy for foreign firms to employ expatriates instead of sourcing employees from within the community hosting the organization. Issues regarding discrepancies between local employees and

expatriates in terms of treatment and remuneration packages have also risen in such instances. Some companies, while having local employees at the lower levels of their structure, have a completely foreign-run management team. Enhancing societal values that transcend philanthropic gestures becomes almost impossible in such scenarios.

Philanthropic gestures such as donations are treated as non-deductible expenses by the taxman, thereby placing tax burdens on organizations, and hindering private firms from undertaking such efforts.

Political environment

A large number of developing countries have been experiencing **political turmoil** resulting in widespread genocides, collapsed economies and a high level of insecurity. This discourages any foreign corporate investment in local investment vehicles.

Political interference and high levels of **corruption** seriously frustrate corporate philanthropic efforts as donations and aid ends up in the wrong pockets or are misused. Corruption has also created loopholes for tax evasion or manipulation by organizations as corrupt tax collection officials readily accept bribes to overlook correct tax amounts.

Community benefits from sourcing and procurement have also been hampered by corruption. Politically influential persons fraudulently capture such procurement tenders and once again, CSR measures aimed at benefiting a whole society ends up the wrong hands.

Efforts to enhance CSR through partnerships with NGOs have also experienced some drawbacks. Corrupt and well-placed persons have in some cases used NGOs as vehicles for financial gains. Corporates have pointed out the problem of identifying credible non-government organizations to partner with as a major stumbling block to their CSR efforts. Organizations have also pointed out that most NGOs involve themselves with short-term projects, which do not have a long-term impact.

Foreign firm exploitation

Most foreign firms completely misuse developing countries in setting up, producing and selling their goods and/or services. Under-compensation of landowners in cases of mining and unjustifiably low purchase prices of land when buying new facilities are major exploits suffered by developing countries. A fresh example of under-compensation is the almost operational Tiomin Company in Kenya, which recently acquired a licence despite a large number of unsettled issues. Landowners got a raw deal, while complaints about the probable environmental damage from toxic emissions and the need for and viability of an upgrading facility seemed to have fallen on deaf ears.

Once companies are established, they take advantage of the increasingly desperate labour market by hiring non-unionized workers to whom they pay subsistence wages. Production processes completely ignore the environmental impact, with increasing cases of toxic dumping reported by members of the community. Such toxic emissions and dumping put the community's health at risk and result in environmental degradation.

Exploitation is also evident in the procurement of raw materials, especially in the agricultural sector. Companies purchase raw agricultural products such as tea, coffee, tobacco and sisal at such low prices that farmers are unable to make up for all costs that go into the production of the raw products, such as fertilizers, labour and maintenance costs. Farmers are thus forced to exist on loans from the exploiting organizations, thereby maintaining the vicious cycle of exploitation. The companies, on the other hand, process the raw products, then sell them both locally and internationally at exorbitant prices and end up making supernormal profits, while the farmers continue to get deeper into poverty and debt.

Recommendation

Developing countries need to develop and implement policies that set guidelines on corporate performance in terms of production processes that ensure environmental protection, procurement processes that ensure fair treatment of suppliers and setting minimum employee remuneration that enhances consumer power and, consequently, economic development. Governments should monitor the sourcing of employees in line with a policy of discouraging the use of expatriates.

Formal measures and checks on mineral and resource mining should also be put in place and followed in order to discourage foreign firm exploitation of developing countries.

Agriculture, which is the backbone of most developing countries' economy, ought to receive subsidies so as to reduce farmers' costs, hence ensuring fair and healthy competition from developed countries. Import duties could also be used to reduce costs discrepancies between locally made and imported products.

Developing countries must stabilize their political environment in order to encourage and sustain short- and long-term investment of funds by corporates and thus enjoy the benefits of yields from such investments. Anti-corruption measures aimed at the complete elimination of fraud, misuse and waste in all systems and processes should be identified and implemented with the purpose of fully promoting corporate philanthropic gestures and ensuring maximum yields from such efforts and other CSR efforts. Making donations a deductible expense in order to make them less expensive to assisting organizations would also encourage philanthropic gestures.

Developing countries seriously need to make their investment vehicles more vibrant and attractive. Markets need to be developed, expanded and deepened. Market authorities need to relax regulations with the aim of encouraging listing and increased cross-boarder listing in order to facilitate easier and faster access to markets. Increased local and international marketing of markets, and better yields on bonds, real estate and other investment vehicles, will translate into increased investment by local and foreign corporates.

Towards a new social responsibility reporting model

“As the Corporate Social Responsibility movement continues to gain momentum worldwide, corporations need standards and measures to define responsible business practices. One such standard — sustainability — has emerged as the international benchmark for corporate citizenship. Sustainability is defined as the “triple bottom line” — the measure of an organization's **economic, environmental and social performance.**”(Savitz, 2003). The impetus gathered by the corporate social responsibility concept needs to be organized, disseminated and channelled through a reporting model that quantifies CSR efforts, thereby facilitating comparability and gauging of company performance in this area.

Reporting is a fundamental tool for perfection since, once subjected to the critical public eye, a company may find that it is not as good as it was thought to be. It will get feedback that causes it to modify its positions; it will be compared with other candidates; and may be required to disclose and explain past mistakes; its weaknesses will become apparent in the media spotlight. Eventually, if you tell the truth and stick to your guns, you gain credibility. Companies that issue sustainability reports do experience this kind of trial by fire, but there is no way round it. You must simply hope that your organization will be stronger for having reported. Reporting is a necessary condition of being sustainable — it holds companies accountable.

Accounting is seen as a professional discipline and a critical social science (Dillard, 1991) having the capacity to construct social realities (Hines, 1988) and also to reveal social and environmental change (Cousins and Sikka, 1993). The boundaries that have traditionally defined accounting within its purely technical reporting function have become subject to an extensive challenge with the new move towards CSR. As such, accounting should not be considered as a neutral practice free of context, but rather as a dynamic site in which a complex matrix of power relations affects the way the we respond to the social and environmental issues that face our communities (Cousins and Sikka, 1993).

An initial step towards the creation of a harmonized reporting model would be the setting of standards with which CSR reporting should comply. The majority of CSR-related standards produced in recent years ask companies to voluntarily develop and implement policies and practices, and to commit themselves to specific performance standards on various CSR issues. More recently, a limited number of standards have been developed that, rather than providing substantive recommendations for implementation of specific CSR policies and practices, are designed to provide guidance for companies seeking to report on their social, environmental and economic performance.

In many cases, these performance standards and reporting standards are complementary. Standards are designed to support, measure, assist in implementation and enhance accountability for corporate performance on CSR issues. While many of the standards produced are single-issue (e.g. focused on environmental performance or corporate governance), others address a range of CSR issues. The standards listed here are only those that are broad in scope, encompassing multiple CSR issues.

Standard setters need to identify quantifiable performance indicators for each CSR impact on society, such as the following:

CSR impact	Quantifiable performance indicators
Employment	<ul style="list-style-type: none"> • Number of employees, by level of responsibility/percentage of total • Number and nature of employee training/support programmes • Number on executive management and board / percentage of total • Wages for employees/percentage of average or total • Advancement, retention and turnover of employees/percentage of total
Sourcing and procurement	<ul style="list-style-type: none"> • Number of suppliers used/percentage of whole • Number of contracts/percentage of whole • Dollars spent/purchase value/percentage of whole • Distribution of sourcing (goods vs services, supply chain, maintenance-repair-operation)/percentage of whole • Development and mentoring • Outreach and verification/screening • 2nd tier/subcontractor participation
Facility siting and management	<ul style="list-style-type: none"> • Underserved communities where facilities are located • Nature of location (market, labour, resource extraction) • Construction and operation • Level of engagement with and involvement of community • Use of company assets: <ul style="list-style-type: none"> - Employment (number of jobs and wages) - Sourcing (number of suppliers and money spent) - Social investment - Product and service distribution (forward linkage) - Product and service use

CSR impact	Quantifiable performance indicators
Product and service development, use and delivery	- Financial investments
	• Tax contribution
	• Indirect jobs
	• Engagement of target market to determine needs
	• Research and development dollars dedicated to products and services for lowest-income market
	• Cross-functional work with operations to reduce costs of product manufacture or service delivery
	• Marketing
	• Sourcing of raw materials
	• Access of product
	• Markets served
	• Nature of distribution
	• Amount of business
	Financial investment
• Nature of investment activity	
• Level of capital investments	
• Amount of investments that support economic benefit	
• Amount of investments in business partners and suppliers	
• Amount of related SRI investing	
• Return on above investment	
Philanthropic and community investment	• Amount of philanthropic investment (cash, in-kind)
	• Amount of social investment (loans, equity investments, guarantees)
	• Community partnerships
	• Level of volunteer commitment and activity
	• Public policy stance/civic engagement

Source: Brody Weiser Burns: Impact of CSR standards and Practices.

On the basis of the identified quantifiable indicators, standards could be set by putting different weights on each indicator, depending on its level of importance. A social reporting model could then be developed for different categories of companies in terms of size and industry ownership, foreign or local. For such a model to be acceptable and useful to stakeholders, the standard setters and model developers should ensure full consultation of major stakeholders in the whole development process.

Rationalization of reporting burden

In a society in which the narrow pursuit of material self-interest is the norm, the shift to an ethical stance is more radical than many people realize (Singer 1995, 277). Such a shift, and standards by which it will take shape, are, however, badly needed.

In Africa, for example, CSR reporting usually results in a short narrative of a company's philanthropic and environmental protection measures that have been implemented over the period under review. In all such reports, all the data are always positive, with all trends moving in the right direction, all the challenges having been met and all the goals exceeded. This is probably due to the fact that there are

no benchmark quantifiable standards, and thus companies judge themselves by their own standards, which in most instances are well within their ability.

Few, if any, companies are as yet fully tracing their environmental costs directly to the source. Even fewer companies are doing the same on the social aspects. This oversight reduces the transparency of economic and social benefits to decision makers, who might be considering pollution prevention and other societal measures in investment choices.

Benefits of CSR reporting include:

- Increased transparency
- Informed and accurate decision-making
- Better risk and crisis management
- Enhanced brand value and reputation
- Good relations with government and communities
- Long-term sustainability for the company and society as more criticism and suggested improvements are received from internal and external auditors
- Ensured CSR implementation as Governments monitor standard compliance

The benefits involved in CSR reporting by far outweigh the “reporting burden”, making it an essential part of corporate performance which should be incorporated in formal financial reporting.

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Socially responsible investments

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The focus of our conference today is accounting and reporting on corporate social responsibility (CSR). I will address this question from the perspective of Standard Life Investments, a global investment company with approximately £80 billion in assets under management. Headquartered in Edinburgh, Scotland, we have operations in London, Montreal, Boston, Hong Kong, China and Dublin and representative offices in Beijing and Seoul. Our parent, the Standard Life Assurance Company, is Europe's largest mutual assurance company.

I will focus my comments on what information on CSR we look for and how we use it.

To start with an obvious point, the kind of CSR information that investors look for depends on why they are looking for it in the first place. Or, as I learned in law school, the answer you get depends on the question you ask.

For our ethical funds, for example, we look for information on environmental and social issues in order to screen out companies that are involved in particular activities or fail to meet certain standards.

For these funds we need information on issues such as whether a company has been convicted of environmental pollution, whether it manufactures ozone-depleting chemicals or pesticide products, whether it tests products on animals, carries out genetic engineering of crops, operates in countries with poor human and labour rights, produces or sells weapons, operates nuclear power plants, or produces or sells tobacco or alcohol.

Thus for our ethical funds we need information relating to a company's social and environmental impact on society.

The issues we are interested in knowing about may or may not have a material impact on a company's financial performance.

But ethical funds are a small portion of our total assets under management at SLI.

Our predominant need for information on CSR in the companies in which we invest arises because we believe that companies that manage their social and environmental responsibilities well will enjoy comparative advantage in the long run.

Furthermore, companies that fail to maintain adequate processes to manage these issues risk damage to their reputation and consequent negative effects on their brand and image that can directly affect their financial performance. Our primary goal is to achieve consistently superior investment results for our clients, and we use our CSR analysis as another research tool to contribute to this goal.

We use our analysis of CSR issues to monitor material risks arising from social and environmental issues, because the value of assets and liabilities may be affected by these issues. We also use the

analysis to assess management ability to control risk, respond to competitive pressure, and adapt to changing environmental and social expectations.

Making investment decisions is more than just plugging ratios and numbers into a formula. A key aspect of what we do involves assessing the ability of management to achieve its goals, and our CSR analysis is one means of evaluating management. This approach is the one that our clients wish us to take on their behalf. Except for our ethical fund investors, who specifically choose to invest in funds that screen out companies that do not meet their ethical criteria, the clients on whose behalf we invest do not want us to limit the investment universe unless social and environmental issues pose a material risk to stock performance.

Since we view the management of CSR issues in the same way as we view the management of any business issue, we expect companies to identify the issues that they have determined are crucial to their business, tell us how they manage these issues, and assess how successful they have been at doing it.

We do not use external rating agencies in this analysis. We have developed our own methodology for rating companies based on our own analysis of company reports and information obtained in meetings with management.

We use a framework approach with four pillars of analysis. First, we consider a company's policies on the key issues for its business. Second, we look at the management systems that companies have adopted to implement their stated policies. Third, we look at how successful the management systems are in achieving policy objectives, and fourth, we consider the quality of company reporting on all of the above.

We identify industry best practice for each sector and benchmark companies against their peers to identify sector leaders and laggards.

This is a brief description of what we look for in CSR and what we do with the information.

From our perspective, what are the gaps in company reporting that need to be filled? I think there are three main gaps.

First, there is a gap in the quantity and quality of reporting on social issues. This is undoubtedly because initially, corporate responsibility focused on environmental issues rather than on the broader picture. This gap must be addressed.

Second, we would like companies to provide more analysis. From an investor perspective, it is too often the case that when companies provide quantitative data on key performance indicators they do not explain why they have chosen to report on particular key performance indicators and do not analyse the data they report to determine whether their initiatives have been successful in achieving their policy goals. Perhaps the reason this analysis is so often missing is that companies are too focused on producing information on key performance indicators, without a full understanding of how investors use these data. The emphasis on key performance indicators may have obscured the fact that data should be used to illustrate a story, the story of whether the approach adopted to achieve a policy goal is working. The emphasis on key performance indicators may also have made companies a bit too sensitive about how their data will be interpreted.

One company reporting on safety made the following comment: "Whilst we have experienced some good results in overall safety performance, there were three fatalities during the year. This is a matter

of intense regret for the organization . However, only one fatality was process related...the other fatalities were both murders.”

The third gap in company reporting from our perspective is that companies do not identify and focus on the issues that are crucial to their sector and the geographical areas of their operation. From our viewpoint, as an investor assessing risk and management ability, the key CSR issues vary depending on the nature and location of a company’s business. A software company does not have the same environmental impacts as a mining company, and we do not expect both companies to devote the same level of attention to measuring, monitoring and improving their environmental performance. And while it may be unnecessary for a company operating in continental Europe to have and enforce a policy on employees bringing firearms to work, it may be essential for a company operating in the United States to do so.

In short, companies should focus their management and reporting efforts on the core issues for their own business. I am pleased to see the effort now under way in different groups, the Global Reporting Initiative in particular, to develop sector-specific guidelines for reporting. And I hope that these guidelines will also recognize the differences made by geographical location.

To sum up:

We take company policies and practices on social and environmental issues into account in making investment decisions.

We believe that companies should report on the policies and practices they have adopted to ensure they meet their social and environmental obligations.

We would like to see companies report on their own analysis of the key issues that confront them and their strategies for managing these issues.

We encourage and support the development of sector-specific guidelines that take geographical differences into account to assist companies in this process.

The OECD Guidelines for Multinational Enterprises

Kathryn Gordon

Senior Economist

Division of Capital Movements, International Investment and Services, OECD

My remarks today will deal with a complex of issues that have been identified recently as being of particular relevance to host countries with large natural resource endowments. These relate to distribution of benefits in host societies, corruption, violence and human rights violations. This is an unsavoury list. I apologize for that. It is not the sort of issue the OECD Investment Committee usually deals with. We came upon it in the course of responding to a request to deal with all corporate responsibility related to international investment in Myanmar.

Corporate responsibility at the OECD

The OECD is founded on the view that market economies – supported by effective public policy – are a major force in increasing economic, social and environmental well-being. The OECD’s mission is to help Governments run themselves more efficiently and effectively.

The international business community has made and will continue to make essential contributions towards achieving the goal of sustainable development. It is worth recalling that the business sector’s most important contribution is the conduct of business itself – its core responsibility is to yield adequate returns to owners of capital by developing profitable investment opportunities. In the process, companies provide jobs and produce goods and services that consumers want to buy. Economic history attests to the power of the business sector to raise general welfare and living standards when operating in effective governance environments.

Of course, corporate responsibility goes beyond this core function. Businesses also have to comply with legal and regulatory requirements and, as a practical matter, must respond to “softer” societal expectations that are not written down in law books. OECD research into the practices of some 2,000 firms from around the world suggests that many businesses have invested heavily in improving their abilities to do this. Many companies have accumulated managerial expertise and contributed to the emergence of standards. Companies make this investment because they recognize their interdependence with the societies in which they operate. If surrounding societies are not doing well, the business sector will not flourish either.

The Guidelines for Multinational Enterprises are an unusual instrument for the OECD, as it deals with corporate responsibility rather than government responsibility. However, these two types of responsibilities are linked and the Guidelines are an attempt to find an appropriate interplay of rules, and come up with an international social contract. They are still a work in progress, particularly regarding their implementation mechanisms.

What are the OECD Guidelines?

The Guidelines are recommendations addressed by 38 Governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in a variety of areas, including employment and industrial relations, human rights, environment, information disclosure, competition, taxation, and science and technology.

Their aim is to promote the positive contributions that multinational enterprises can make to economic, environmental and social progress.

Main recommendations of the OECD Guidelines for Multinational Enterprises

The Preface situates the Guidelines in a globalizing world. The common aim of the Governments adhering to the Guidelines is to encourage the positive contributions that multinational enterprises can make to economic, environmental and social progress, and to minimize the difficulties to which their various operations may give rise.

I. Concepts and principles: sets out the principles that underlie the Guidelines, such as their voluntary character, their application worldwide and the fact that they reflect good practice for all enterprises.

II. General policies: contains the first specific recommendations, including provisions on human rights, sustainable development, supply chain responsibility, and local capacity building, and more generally calls on enterprises to take full account of established policies in the countries in which they operate.

III. Disclosure: recommends disclosure on all material matters regarding the enterprise, such as its performance and ownership, and encourages communication in areas where reporting standards are still emerging, such as social, environmental and risk reporting.

IV. Employment and industrial relations: addresses major aspects of corporate behaviour in this area, including child and forced labour, non-discrimination and the right to bona fide employee representation and constructive negotiations.

V. Environment: encourages enterprises to raise their performance in protecting the environment, including performance with respect to health and safety impacts. Features of this chapter include recommendations concerning environmental management systems and the desirability of precaution where there are threats of serious damage to the environment.

VI. Combating bribery: covers both public and private bribery, and addresses passive and active corruption.

VII. Consumer interests: recommends that enterprises, when dealing with consumers, act in accordance with fair business, marketing and advertising practices, respect consumer privacy, and take all reasonable steps to ensure the safety and quality of goods or services provided.

VIII. Science and technology: aims to promote the diffusion by multinational enterprises of the fruits of research and development activities among the countries where they operate, thereby contributing to the innovative capacities of host countries.

IX. Competition: emphasizes the importance of an open and competitive business climate.

The Guidelines are part of a broader and balanced instrument of rights and commitments – the OECD Declaration on International Investment and Multinational Enterprises. The Declaration promotes a comprehensive, interlinked and balanced approach for Governments' treatment of foreign direct investment and for enterprises' activities in host countries. The Declaration is one of things countries

have to sign up to when they become a member of the OECD club. It helps countries work towards a liberal investment regime embodying the values of transparency, non-discrimination and investment protection, while at the same time helping to ensure that international investors operate in harmony with host countries' laws and less formal expectations.

The Guidelines are the only multilaterally endorsed code of conduct for multinational enterprises. The adhering countries¹ are the source of most of the world's foreign direct investment and are home to most major multinational enterprises. Although the Guidelines are non-binding for enterprises, Governments have committed themselves to promoting their observance and effective implementation. They are reinforced by a facility that allows interested parties to bring a company's alleged non-observance of the Guidelines' recommendations to the attention of a National Contact Point.

The National Contact Point

Critics often call into question corporate responsibility initiatives on the grounds that their follow-up mechanisms are ineffective. Although the Guidelines' follow-up mechanisms are very much a work-in-progress – they were created mainly during the 2000 Review of the 1976 Guidelines – they offer a unique channel for encouraging observance of appropriate norms for international business conduct.

The National Contact Point (NCP) – often a government office – is responsible for encouraging observance of the Guidelines in its national context and for ensuring that the Guidelines are understood by the national business community and by other interested parties. The NCP handles inquiries about the Guidelines; discusses matters related to the Guidelines and assists in solving problems that may arise in this connection; and gathers information on national experiences with the Guidelines. The NCPs meet annually to share their experiences and to report to the Committee on International Investment and Multinational Enterprises (CIME).

The CIME is the OECD body responsible for overseeing the functioning of the Guidelines, and it is expected to take steps to enhance their effectiveness. It can also issue clarifications on the application of the Guidelines in specific circumstances. As the Guidelines are addressed to enterprises, business and labour input is especially important. The CIME regularly consults with the OECD's business and labour advisory committees — the Business and Industry Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC) – and NGOs on matters relating to the Guidelines and other issues concerning international investment and multinational enterprises.

The Guidelines' procedures provide for something called “specific instances,” a soft whistle-blowing facility that allows any interested parties to call a company's alleged non-observance of the Guidelines' recommendations to the attention of an NCP. Any person or organization may approach a National Contact Point to enquire about a matter related to the Guidelines. Companies may also use this facility to get guidance from Governments on whether their behaviour is appropriate – so far, no specific instances have been brought by companies.

Implementation in specific instances

The “specific instance” procedure has been used extensively. Since the 2000 Review, 64 “specific instances” have been raised, concerning company practices, in OECD as well as non-OECD countries, in areas that go to the heart of the current debate on globalization. These include the social implications of resettlement of populations in the vicinity of a copper mine in Zambia, child labour in

¹ These are the 30 OECD members and 8 non-member countries: Argentina, Brazil, Chile, Estonia, Israel, Latvia, Lithuania and Slovenia. An application by Singapore is being considered.

India, environmental and labour issues in Ghana's gold mining sector, treatment of workers during factory closings in the OECD area and beyond, and supply chain issues in the Guatemalan production site of a Republic of Korea supplier of an American apparel retailer.

The Guidelines have also featured in high-level political declarations – the 2002 OECD Ministerial called for the Guidelines to be used to promote “integrity and transparency in the international economy,” and the G8's 2002 Africa Action Plan noted the importance of effective follow-up on the Guidelines and cited their role in the fight against corruption.

The Guidelines in practice

Examples of recent cases raised under the Guidelines:

Resettlement in the Zambian copper belt: The Canadian NCP was asked by NGOs to consider the impending removal of local people from a Canadian mining company's lands and encouraged the company to cooperate with Canadian and Zambian NGOs in reconsidering the company's resettlement plans. The NGO involved in the case has reported that this resulted in the company agreeing to delay resettlement to allow time for better evaluation of associated social disruptions and for the Zambian Government, with help from the World Bank, to provide alternatives.

Child labour in India: The Netherlands NCP looked into NGO allegations of child labour in a leading sporting goods company's outsourcing operations in India. The NCP found that, even though the issues brought to the NCP's attention probably still exist in the Indian sporting goods industry at large, the company encourages its suppliers to operate in a socially responsible manner.

Human rights in Myanmar: Following inquiries by labour unions about companies' operations in Myanmar, the French NCP issued recommendations of eight practices that companies can use to contribute to the fight against forced labour. It also noted that such practices should not be a substitute for the enforcement of the government measures necessary to suppress forced labour.

More information can be found in the Annual Reports on the Guidelines and on the websites of the NCPs.

Support for the Guidelines was expressed in the May 2003 G8 Finance Ministers' Statement.

Challenges

Impact. While their overall visibility has grown, more needs to be done to raise public awareness and demonstrate that the Guidelines can make a vital difference in the way companies conduct business. The NCPs are focusing in particular on improving the transparency and effectiveness of the Guidelines' procedures. In this process, G7's National Contact Points have an opportunity to set an example in highlighting and raising the profile of the National Contact Points.

Defining the boundaries between government and business responsibilities. All parties to the Guidelines process – business, trade unions, NGOs and Governments themselves – recognize the need to clarify the respective roles of Governments and companies. Work has already been done on the issue of assisting multinational enterprises in observing the recommendations of the Guidelines in situations of violent conflict and widespread human rights abuses. Further OECD work on corruption and on business operations in weak governance zones would provide an opportunity to use the Guidelines to help to define what it is reasonable to expect of companies operating in such zones.

Encouraging partnerships among global instruments for corporate responsibility. The Guidelines are one of several global corporate responsibility initiatives. The OECD would like to deepen existing relations with other international organizations – in particular with the United Nations institutions – and to explore further how synergies among these initiatives and organizations may be enhanced.

Corporate impact reporting

Mallen Baker

*Development Director
Business in the Community*

Business in the Community and the Business Impact Taskforce

Business in the Community (BITC) is a business-led organization of 700 UK-based companies committed to action on responsible business practice. These companies employ over 15.7 million people in over 200 countries worldwide. A total of 189 of these member companies participate in leadership teams that develop responsible business practice. BITC is the largest UK national organization of its kind with the ability to translate company policy into local action, whilst connecting its members with a network of international partners. It has 20 years' experience of corporate social responsibility across issues.

BITC advocates reporting of social and environmental performance as a tool in mainstreaming and communicating corporate social responsibility (CSR). A business-led taskforce worked for two years on how companies should measure and report on their CSR performance. The taskforce produced "Winning with Integrity", a report summarizing the best business case arguments for CSR, and identifying quality of management for the various areas of activity.

The report recommended a set of 55 core indicators by which a company's impact on society can be measured. These indicators are intended to provide management information of value to businesses, be of interest to external stakeholders, highlight meaningful performance information, and give a real insight into the effectiveness of efforts to manage corporate social responsibility performance.

The report also recommended the creation of a corporate responsibility index to benchmark on policy and practices. The Corporate Responsibility Index provides a systematic process to compare companies' management processes and performance with those of other organizations in their sector. It measures how corporate responsibility strategy is developed and integrated within core business practices, ultimately resulting in improved performance and impact in areas that are important for business.

Finding a core of relevant performance data

Following the publication of this report, the Business Impact Review Group (BIRG) was formed in 1999. It is composed of 20 companies from a variety of sectors and with varying experience in reporting on CSR. They all agreed to review themselves against the indicators recommended by the taskforce. These performance indicators were selected for their ability to measure progress over time, their practicality, their relevance to the target audience as well as their materiality to the business, their verifiability, their meaningfulness at group level, and the ability of the company to control or influence them. The indicators are subdivided into sets of indicators related to the market place, the environment, the workplace, the community and human rights.

This exercise of businesses practically working together to identify what works and what doesn't was of great value. It provided a real body of business experience on reporting. The work carried out by the BIRG has helped in reaching a broad validation for the framework of indicators, with some

amendment. By reporting against common indicators, these companies have participated in the identification of performance measures that are common to all and should be considered as the irreducible core. Other indicators on specific issues affecting particular business sectors can be used in addition to the core one. The aim of this work is to encourage more companies to provide comparable information, which will make it easier for outside observers to quickly get to the heart of a company's social and environmental performance.

Stakeholder focus on the business

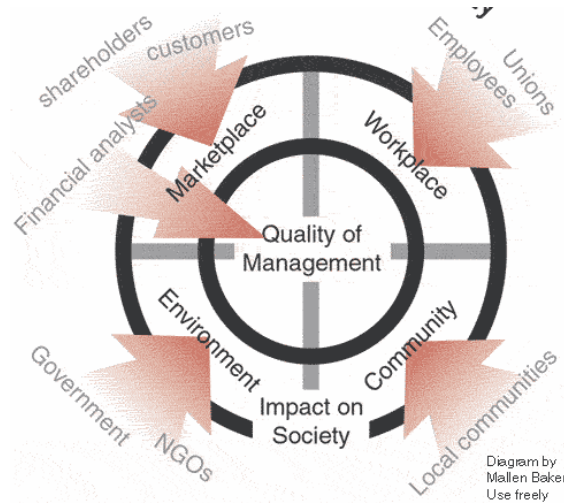
Companies need to answer to two aspects of their operations: the quality of their management in terms of people and processes (the inner circle); and the nature of, and quantity of their impact on society in the various areas.

Summary of impact performance indicators.

Level	Workforce	Marketplace	Environment	Community	Human Rights
01	Ensure top level commitment of senior management to measure and manage impact on society within this impact area				
	<ul style="list-style-type: none"> Workforce profile (race, gender, disability, age etc) Staff absenteeism Number of legal non-compliances on Health and Safety, Equal Opportunities and other legislation Number of staff grievances Upheld cases of corrupt or unprofessional behaviour 	<ul style="list-style-type: none"> Customer complaints about products and services Advertising complaints upheld Complaints about late payment of bills Upheld cases of anti-competitive behaviour 	<ul style="list-style-type: none"> Overall energy consumption Water usage Quantity of solid waste produced (weight/volume) Upheld cases of prosecution for environmental offences 	<ul style="list-style-type: none"> Cash value of community support as % of pre-tax profit Estimated combined value of staff company time, gifts in kind and management costs 	<ul style="list-style-type: none"> Compliance with the UK Human Rights Act and international human rights standards with regard to employees and other stakeholders and absence of upheld cases against the company Existence of confidential grievance procedures for workers Wage rates and other employment conditions
02	<ul style="list-style-type: none"> Staff turnover Value of training and development provided to staff Pay and conditions compared against local equivalent averages Workforce profile compared to the community profile for travel to work area 	<ul style="list-style-type: none"> Customer satisfaction levels Customer retention Provision for customers with special needs Average time to pay bills to suppliers 	<ul style="list-style-type: none"> CO₂/greenhouse gas emissions Other emitters (e.g. Ozone, radiation) Use of recycled material Positive and negative media comment about environmental activities 	<ul style="list-style-type: none"> Individual value of staff time, gifts in kind and management costs Positive and negative media comment on community activities Track progress and achievement measures Leverage of other resources 	<ul style="list-style-type: none"> Progress measures against adherence to stated business principles on human rights as stated by UK Law and international human rights standards Proportion of suppliers and partners screened for human rights compliance
03	<ul style="list-style-type: none"> Impact evaluations of the effects of downsizing, re-skilling etc Perception measures of the company (e.g. equal opportunities, work/life balance) 	<ul style="list-style-type: none"> Extra sales gained attributable to social policy/cause related marketing Customer loyalty measures Recognising and catering for diversity in advertising and product labelling Perception of company as a desirable commercial partner Social impact, cost of benefits of products/services 	<ul style="list-style-type: none"> What level of waste is recyclable Net CO₂/greenhouse gas measures and offsetting effect Environmental impact over the supply chain Environmental impact, benefits or costs of products/services against best in class 	<ul style="list-style-type: none"> Impact evaluations carried out on community programmes including improved educational attainment, number of jobs created, professional support for community organisations, environment enhancement or conservation Perception measures of the company as a good neighbour 	<ul style="list-style-type: none"> Proportion of suppliers and partners meeting the company's expected standards on human rights standards Proportion of company's managers meeting the company's standards on human rights within their area of operation Perception of the company's performance on human rights by employees, the local community and other stakeholders

Outside stakeholders are taking an increasing interest in the activity of the company. Most look to the outer circle – what the company has actually done, good or bad, in terms of its products and services, in terms of its impact on the environment and on local communities, or how it treats and develops its workforce. Out of the various stakeholders, it is financial analysts who are predominantly focused – as well as past financial performance – on quality of management as an indicator of likely future performance.

Because of the number and variety of people taking an interest in companies' impact on society, most CSR reports are aimed at a broad base of stakeholders. However, companies receive very little feedback from stakeholders and the readership of CSR reports is in question. The type of analysis given in these reports, or lack of, is one of the factors of the lack of interest in CSR reports. This is particularly true of financial analysts, who do not read CSR reports as they are not presented with the information they need. This poses a problem in the long term, as it is likely that reports that are not read today will simply not be published any more in 20 years' time.

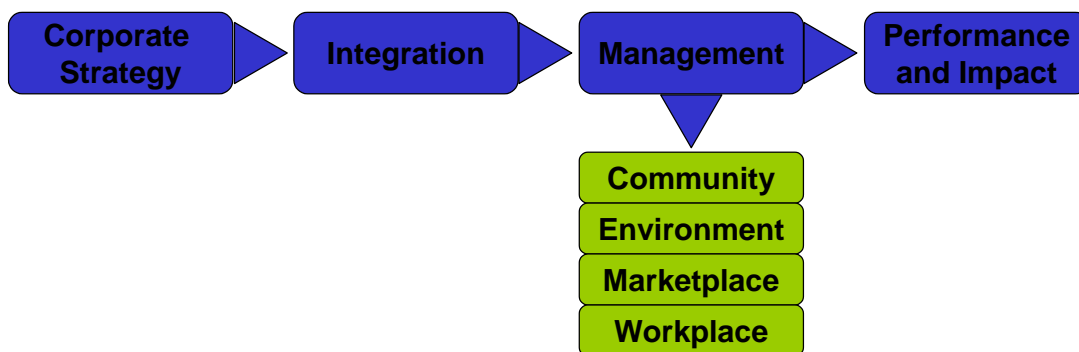


The Corporate Responsibility Index

The Corporate Responsibility Index is a detailed benchmarking questionnaire on policy and practice. It is a business-led voluntary corporate responsibility initiative that engages with companies from all sectors. Companies report on a total of six social and environmental impact areas.

The Index provides companies with a systematic approach to managing, measuring and reporting upon the various impacts that companies have upon society and the environment, and provides a mechanism through which they can compare their management processes and performance against those of others in their sector.

The Index is based on a framework that BITC developed with business through a series of consultations and workshops with over 80 companies and engagement with a number of other stakeholders during 2002. In the first year, 122 major UK companies took part in it. Following the launch of the Index results in March 2003, BITC has been running a series of feedback workshops and consultations with business. A revised draft survey was sent out for consultation on 4 July 2003. The overall structure of the Index is represented in the following model.



If we look across the Index model from left to right, the Index enables companies to assess the extent to which corporate strategy is 'integrated' – or translated into responsible practice throughout the organization, in the management of four key areas: community, environment, marketplace and workplace, and finally performance in a range of social and environmental impact areas.

The Index process starts with a self-assessment using on-line survey. The BITC Index Team does an initial assessment of the responses and follows up by contacting the company with any queries that arise. Company visits are then made, followed by a validation of the assessment. The results of this are scored using an on-line database. A confidential feedback report is then sent to the company. This report provides companies with their position in their sector and economic group, and overall in the Corporate Responsibility Index against each impact area. This is gap analysis that helps companies evaluate how well they are doing across the corporate responsibility agenda and relative to their peer group.

The Index provides analysis by comparing a company's management processes and performance with those of other organizations in their sector. The confidential feedback received by companies provides a powerful management tool to help engage Board members and raise awareness of the full range of corporate responsibility issues. Completion of the Index also encourages dialogue between different functions within companies and provides a framework for continuous improvement.

Companies that do well are demonstrating that they have successfully translated corporate values or beliefs and commitments into mainstream management systems, programmes and practice and that they are able to measure and report how this works in practice.

Challenges

Most CSR reports are aimed at a broad base of stakeholders – but very few stakeholders actually read them.

There are no frameworks currently in existence that are so well developed they should be used as the basis for compulsion or legislation.

For the main consumers of formal reports the challenge is to identify what constitutes core data, and to move the mainstream financial community towards seeing non-financial reporting as an indicator of quality of management.

For other stakeholders, new channels of dialogue and communication need to be developed – companies will not continue to produce reports for people who don't read them!

Tools, guidance and standards for corporate social responsibility and sustainability reporting

Roger Adams

*Executive Director – Technical, Association of Chartered Certified Accountants
Global Reporting Initiative Board Member*

The transparency imperative

Companies are under pressure to provide more information on their impact on society, for better non-financial information to help make investment, purchasing, employment, campaigning decisions. This pressure comes from investors, regulators, customers, companies, the community, rating groups and environmental and social advocates. Discerning investors view companies that are managed for their social and environmental impacts as well as the profit margin as being better managed and more trustworthy, and thus more stable investments. Regulators put a greater focus on non-financial activities through regulatory and non-regulatory means. Customers ask for more information on the products they purchase. Employee loyalty is much higher in those companies with clearly articulated socially responsible values. Major corporations now need to negotiate their place in society on a much broader range of social indicators as civil society is demanding to be consulted on those aspects of corporate activity that impact on them directly. Rating groups are the source of a plethora of requests for information now descending on companies. GRI addresses this issue by offering a one-stop shop for disclosure on non-financial activities.

The GRI mission

The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to elevate economic, environmental and social reporting to routine practice and to the highest standards of rigour and comparability. We have financial accounting, reporting and related guidance – we need the same for sustainability. The GRI works on developing and disseminating globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products and services. They are continually updated through a multi-stakeholder consensus-driven process.

The GRI aims at helping businesses by identifying areas for improvement and bolstering stakeholder communications; NGOs and labour organizations by facilitating dialogue with business and providing consistent information; investors by promising a standardized approach similar to financial reporting; and Governments by offering a flexible tool which complements regulations or avoids the need to regulate.

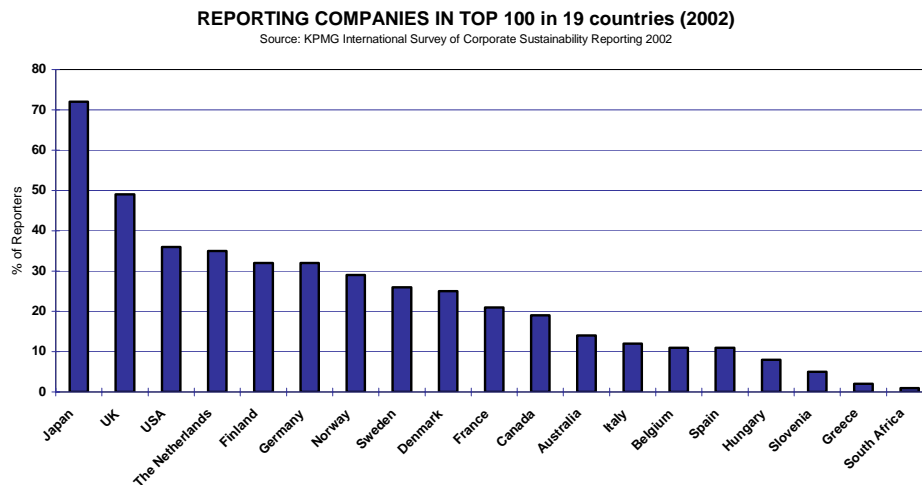
The GRI incorporates the active participation of representatives from business, accountancy (ACCA/CICA), investment, environmental, human rights, research and labour organizations from over 75 countries. Started in 1997 by the Coalition for Environmentally Responsible Economies (CERES), the GRI became independent in 2002, and is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with UN Secretary-General Kofi Annan's Global Compact. Today, over 300 companies cite the GRI in their report.

The GRI Steering Committee originally designed the overall governance structure of the new institution, which received final approval from the first GRI Board of Directors on 21 June 2002. Key components of the institution are the multi-stakeholder Board, Stakeholder Council and Technical Advisory Council. Previously based in Boston, (United States), the GRI is now located in Amsterdam, (Netherlands).

Why organizations report

There are many reasons for organizations to report:

- Identify internal management improvements
- Manage risk and protect reputation
- Peer group/political pressure
- Facilitate stakeholder engagement
- Attract/retain employees and investors
- Secure/strengthen “licence to operate”
- Achieve competitive advantage
- Internal management – performance improvement, alignment and communication of policies
- Stakeholder consultation – strengthens dialogue
- Employees – attractiveness and loyalty higher in a company committed to transparency
- Risk and reputation – anticipate risks and enhance reputation, a company’s most precious resource
- Taken together these other benefits help to increase competitive advantage



An increasing number of companies recognize these benefits and produce non-financial reports. In 2002, 45 per cent of the world’s largest 250 companies produced reports on environmental and social issues. This number is up from 35 per cent in 1999. However, reports produced still generally lack consistency, comparability and credibility.

The GRI Guidelines

The GRI Guidelines are based on the following sustainability reporting principles:

- Transparency
- Inclusiveness
- Sustainability context
- Completeness
- Relevance
- Neutrality
- Accuracy
- Clarity
- Timeliness
- Comparability
- Auditability
- But not materiality?

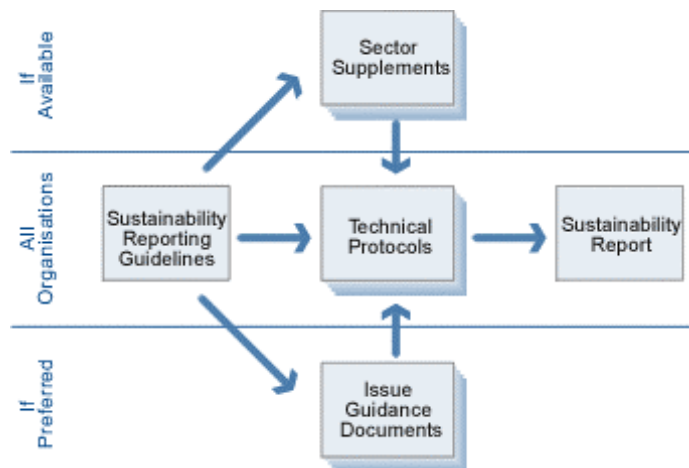
These are informed by the long tradition of financial reporting principles, but you will notice some additions, notably inclusiveness (multi-stakeholder engagement throughout the reporting process) and sustainability context (placing an organization 's performance in the larger context of society or the world environment). However, the GRI still does not have materiality as one of its principles for reporting.

The indicators proposed are divided into three types: economic, environmental and social. There is a total of 97 indicators, including 50 core and 47 additional indicators. The “core” indicators are considered to be significant to most companies and material to most stakeholders. Here are a few examples:

- Economic indicators: taxes and subsidies, supplier contracts;
- Environmental indicators: wastes, energy and water use, biodiversity;
- Social indicators: diversity, training, child labour, bribery.

The GRI family of documents

The Guidelines are the foundation upon which all other GRI guidance is based. They outline core content that is broadly relevant to all organization s regardless of size, sector or location. All organizations seeking to report using the GRI framework should start with the Guidelines.



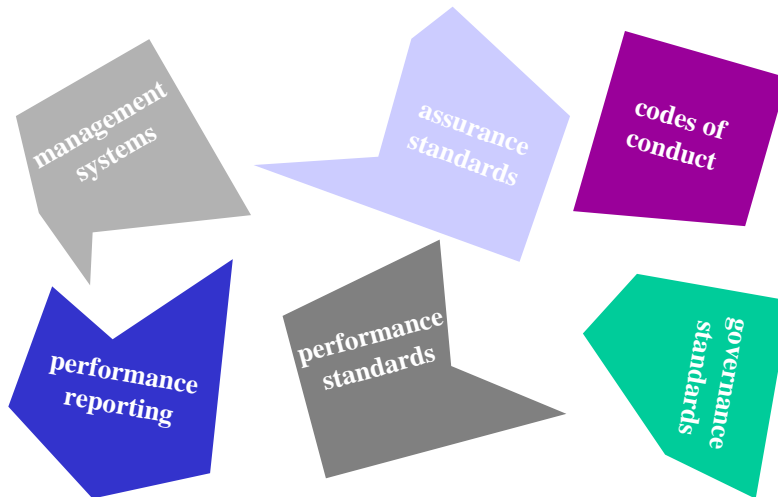
Each technical protocol addresses a specific indicator or set of indicators (e.g. energy use, child labour) by providing detailed definitions, procedures, formulae and references to ensure consistent reporting. Over time, most of the indicators and elements in the GRI Guidelines will be supported by a specific technical protocol.

GRI is developing sector supplements through multi-stakeholder processes because it recognizes the limits of a one-size-fits-all approach and the importance of capturing the unique set of sustainability issues faced by different industry sectors (e.g., automotive, banking). Supplements complement, but do not replace, the Guidelines. Supplements that are in process or at a pilot stage include financial services, automotive, telecommunications, and tour operators. Sector supplement pilots in negotiation cover financial services-environment, pharmaceuticals, chemicals and mining. Protocol pilots include child labour, energy use and water use.

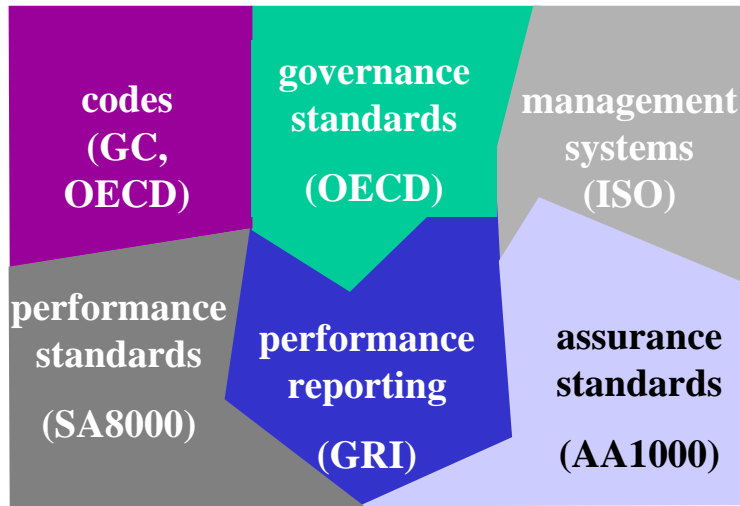
Assurance and other CSR tools

The official “party line” regarding assurance as stated in the 2002 Sustainability Reporting Guidelines is as follows: “GRI encourages the independent assurance of sustainability reports and the development of standards and guidelines for the assurance process...”. The issues to be considered when it comes to verification of CSR reports are: who certifies the verifiers? Should we create a new assurance standard or adopt existing one? The GRI does not intend to get into assurance of CSR reports, but assurance or verification is ONE key to strengthening the credibility of reports. The Guidelines ask reporters to disclose their assurance practices, if applicable. They also provide guidance in annex regarding assurance statements. The role of the AA1000AS is currently under review by the GRI Board.

Apart from assurance and reporting, there are many other CSR tools available to companies, and it is argued that their number and variety induce confusion. The question is, should companies see this picture?...



or this one – a generally accepted CSR framework?



Challenges ahead

There are many challenges ahead for those working on the development of a framework for sustainability reporting and for the GRI in particular:

- The uptake by reporters and users needs to be increased dramatically;
- Avoiding “greenwash” – through “in accordance” and verification;
- Strengthening/explaining linkages to financial reporting and the financial industry – through engagement with stock markets and analysts, ensure increased relevance to this important population;
- Putting flesh on the bones: rolling out sector supplements and protocols;
- Expanding engagement: SMEs, sectors, regions;
- Many GRI indicators are lagging (looking back); we will look to expand/improve leading (forward looking) indicators;
- The GRI needs to address the fact that most reporters are multinationals;
- The GRI will also be looking to establish some regional presences.

“Far beyond financial matters”

“By offering a new framework for corporate reporting, the GRI has a unique contribution to make in fostering corporate transparency and accountability of corporate activities far beyond financial matters” – Kofi Annan, Secretary-General, United Nations, April 2002.

Assessment of corporations' impact on society

Mokheti Moshoeshoe

Director

African Institute of Corporate Citizenship

African Institute of Corporate Citizenship

The African Institute of Corporate Citizenship (AICC) is a centre of excellence in corporate social responsibility. Established in 2001 as a non-governmental/non-profit organization (NGO/NPO), AICC has managed in a short time to become the leading NGO/NPO in Africa focusing on Corporate Citizenship. Since its establishment it has grown steadily and is today composed of approximately 12 dedicated people. 2003 has seen a reorganization of AICC in order to strengthen and focus our work on key corporate citizenship issues.

The core team at AICC has significant experience of working across a spectrum of sectors, including corporate, government and community/NGO. A major strength of AICC is the wealth of international experience of its directors, and the number of links it has with key international organizations. This ensures that both local and international best practice is taken into account when addressing Africa's corporate citizenship challenges.

AICC is committed to strengthening African leadership in corporate citizenship through research, advocacy and network building. Its principled approach is based on:

- Ethics – AICC is committed to honesty, fairness, transparency, respect and professionalism.
- Sustainability – AICC strives to change the way African business leaders think and act in order to ensure that they take responsibility for the sustainability of their business through stakeholder engagement, and environmental and social management.
- Commitment – AICC is committed to building an ongoing working relationship with key partners. We believe the practice of corporate citizenship is best developed through dialogue between organizations with different backgrounds.
- Diversity – Diversity characterizes the stakeholder approach. All stakeholders' views must be respected and understood if value is to be derived.
- Quality – AICC strives to always deliver the highest possible quality in its research, advocacy, training and programme activities.

AICC was established in 2001 as a hybrid organization : part non-governmental/non-profit organization (NGO/NPO) engaged in public domain work and part consultancy working directly for corporate clients on a case-by-case basis. It has gained valuable experience through the consultancy work, getting to know “the other side of the coin” and the practical problems and barriers facing business in the transition towards becoming good corporate citizens. However, AICC has also felt it was risking its credibility as a serious NGO/NPO in the field of corporate citizenship by working both sides of the coin within the same organizational structure. Thus, at the beginning of 2003, AICC ceased the consultancy work and now focuses entirely on public domain work such as research, training, advocacy and an extensive programme area.

Challenges

The challenges facing corporations and their stakeholders with regard to CSR reporting are numerous. First, there is no accepted standard on what information should be reported and in what depth. CSR reports are also viewed by some as a space for engagement. Some companies report on comments and criticisms from their stakeholders and use their reports as an interface for stakeholder engagement. However, no solution has yet been found to make that dialogue between companies and stakeholders complete and efficient. Another problem in CSR reporting is the existing gap between the perspectives of stakeholders and corporations. Many stakeholders complain that corporations do not give complete and meaningful information on the sustainability of their operations, while some enterprises argue that the information included in any report, be it financial or non-financial, should above all be material to the business. Enterprises often have difficulties in establishing who their stakeholders are. This is a major problem since determining the target readers for the reports determines the content of that report. The social agenda of corporations does not always match that of their stakeholders. Many corporations still believe that being a good citizen means solving civil society problems on an ad hoc basis through philanthropic programmes such as the financing of schools. On the other hand, stakeholders hold corporations responsible for their operations' overall impact on society, which is a much more complex thing to manage and report on. Finally, corporate social responsibility is often viewed as a step towards sustainable development and companies are expected by an increasing number of people to work towards sustainable development and not only towards a minimization of the negative effects of their operations on society.

Transparency and accountability

There is a clear need for more corporate accountability and more transparency on the impact of corporations on society. An increased uptake of CSR reporting is needed, as well as an increased readership of these reports. This means a greater engagement on the part of corporations and stakeholders in the process of reporting – thus increasing the match between the type of information that is disclosed and the type of information demanded. There is also a need for a better understanding, on the part of corporations as well as stakeholders, of issues such as sustainable development and corporate citizenship.

What are the motivations behind enterprises' decisions to produce or stop producing a CSR report? The reasons for enterprises to report are both business reasons and public pressure. A sound CSR policy and performance ensure enterprises a good reputation and better risk management. Recent social scandals such as Bhopal and sweatshops in Asia make investors pay more and more attention to how companies manage the risk to their reputation, and demand that reports be published on companies' social and environmental performance. Socially responsible investment (SRI) funds choose to invest solely in socially and environmentally responsible corporations/projects. Some companies consider that being at the forefront of CSR issues also helps increase their competitiveness.

Globalization and the public's realization that corporate power has not enough counterbalance have triggered the emergence of codes of conduct and reporting guidelines, for example the Equator principles for the banking industry and the Global Reporting Initiative. Improved information and communications technology has created greater consumer knowledge and power over enterprises' turnover. Civil society and certain non-governmental organizations demand social and environmental sustainability for their constituencies. There is strong public pressure for the disclosure of information on companies' social and environmental performance.

On the other hand, the majority of corporations choose not to report. Some are worried that information published in a CSR report can have an adverse effect, as enterprises can be considered responsible for achieving the goals they set out in their reports. They can also be sued if they give out

information on their negative impact. Some can also be discouraged from reporting, since meeting the needs and expectations of stakeholders is still a challenge, even for long-time report producers. Attempts have been made, for example by the GRI, to define what companies should report to satisfy the majority of stakeholders. However, there is still much confusion within corporations on what to report on.

Benefits of reporting

The production of a report on a corporation's environmental and social performance, however good or bad, is a first step towards addressing the needs of NGOs and civil society, and thus towards creating a better understanding between communities and corporations. For a CSR report to be really beneficial, it has to constitute prima facie evidence that a company is worthy of investment because of its sustainable development policies. The production of a report is also a way for a company to become better engaged as regards social and environmental issues. The more reports that are produced, the more other companies are likely to become engaged.

For developing countries in particular, the promotion of transparency and accountability in enterprises' risk management systems can influence Governments to follow the same trend. Improvement of good governance, either in the private or the public sectors, is an antidote to corruption. CSR reports, through stakeholder dialogues, create the conditions for better consultation and engagement of local populations.

An overview of UNILEVER's approach to environmental and social responsibility

Mandy Cormack

*Vice President Corporate Responsibility & Head Corporate Relations – London
Unilever*

Our business

Unilever is a multi-local multinational with consumers, employees, business partners and shareholders on every continent. The Unilever Group was created in 1930 when the British soap-maker Lever Brothers merged its businesses with those of the Dutch margarine producer Margarine Unie. Unilever has operations in around 100 countries and our products are on sale in 50 more.

Unilever has two divisions – Foods, and Home & Personal Care. Food brands include such well-known names as Lipton, Knorr, Hellmann's, Magnum and Bertolli. Home and personal care brands include Dove, Lux, Omo, Pond's and Sunsilk.

Global challenges/local actions

Every day, around the world, 150 million people choose our products to feed their families and clean themselves and their homes. By making and selling brands that meet people's everyday needs, we have grown into one of the world's largest consumer goods businesses.

We believe the very business of "doing business" in a responsible way has a positive social impact. We create and share wealth, invest in local economies, develop people's skills and spread expertise across borders.

As a global company we aim to play our part in addressing global social and environmental concerns, such as micro-nutrient deficiency, health and hygiene, water quality and sustainable agriculture. But we do not believe it is practical to address these concerns only at a global level. Or that a companies such as ours can make a difference without working in partnership with others. That is why, as a multi-local multinational, we tackle global concerns with local actions and work in partnership with local agencies, Governments and non-governmental organizations.

Global policies/local initiatives

Environment

Our environmental policy applies to all Unilever companies worldwide. It sets out our commitment to meet the needs of customers and consumers in an environmentally sound and more sustainable manner, through continuous improvements in environmental performance in all our activities.

We use a life cycle approach to assess our overall impact on the environment. This enables us to analyse our impacts and to concentrate on those areas where we can bring the greatest benefits. Our strategy has a clear focus. We aim to make more with less in our manufacturing (eco-efficiency), and design our products to minimize their impact on the environment (ecoinnovation).

We realize that many issues that affect us are outside our direct control either at the beginning of our supply chain or at the end. This has led us to focus on three sustainability initiatives in areas that are

relevant to our business and where we believe we can make the most difference: agriculture, fish and water.

Sustainable agriculture

Recent environmental and social pressures on agriculture have prompted us to develop a more sustainable approach to how our crops are grown. We have completed guidelines for the sustainable management of all five of our key crops – palm oil, tea, peas, spinach and tomatoes – which are being published on www.growingforthefuture.com, a website specially set up to share our knowledge. We are also working with other major food companies – including Danone and Nestlé – to promote sustainable agriculture practices through the Sustainable Agriculture Initiative (www.saiplatform.org).

Sustainable fisheries

The world's fisheries are under threat. According to the Food and Agriculture Organization of the United Nations, 48 per cent are fully exploited, 16 per cent overfished and 9 per cent depleted.

Unilever is one of the world's largest buyers of frozen fish for our Iglo, Birds Eye and Findus brands. Without regular supplies we would have no fish business, so we have a clear commercial interest in protecting and preserving fish stocks. In 1996 we made a pledge to buy all fish from sustainable sources by 2005 and, working with the World Wide Fund for Nature, set up the Marine Stewardship Council to establish a certification process for sustainable fishing practices.

Water stewardship

Unilever's activities are intimately linked with safe water supplies, whether utilized in our operations or by our suppliers, or by consumers who use our products. Competing demands for water – for agriculture, manufacturing and human consumption – and the need to sustain a healthy environment mean that society needs to adopt a more integrated approach to water management.

To help us manage our many water projects effectively, we developed a set of principles with the help of the UK sustainability organization Forum for the Future. Our Sustainable Water and Integrated Catchment Management (SWIM) principles combine a structured approach to understanding water demands in a particular catchment area with a framework for managing partnership projects.

Social

We are committed to making a positive contribution to society through the brands we produce and sell, through our commercial operations and relationships, through the voluntary contributions we make to the community and through our wider engagement with society.

Unilever is a decentralized organization, so our policy is not to impose global social programmes on our managers but to empower them to decide what is right for their businesses and their local societies.

This approach is based firmly on the values enshrined in our Corporate Purpose and the standards of corporate behaviour set out in our Code of Business Principles.

Policy in practice

It is at a country level that our policy becomes a reality as shown by the following two examples.

HIV/AIDS in Africa

Providing a consistently high standard of occupational health care is at the heart of our business principles. But different countries have differing needs. In sub-Saharan Africa, one in ten people is thought to have HIV/AIDS. As there is currently no cure for AIDS, Unilever companies in Africa have

developed a common approach with programmes that focus on prevention education and the most appropriate types of treatment and care for AIDS sufferers.

Advice and help for employees have been extended to their families and communities through joint programmes with local partners. For example, as a leading member of the Kenya HIV/AIDS Business Council, Unilever is working closely with the Government, local NGOs and 100 other companies to stop the spread of HIV/AIDS in the workplace and in the community. In South Africa Unilever employees, the Unilever Foundation and the Durban Children's Society are supporting a community family home for AIDS-affected children.

Entrepreneurs in Indonesia

In Indonesia 90 per cent of all businesses are small or medium-sized and are responsible for generating over half the country's income. They are a major engine for growth in the local economy, and so the Indonesian Government is keen to find new ways of encouraging more entrepreneurs to start businesses.

Unilever Indonesia works with over 2,000 small and medium-sized suppliers and distributors, and thus is an appropriate partner to work with the country's Department of Trade and Industry and others to create more first-generation small business start-ups.

A series of pilot projects started in 2000 has been highly successful, not only for the economy but also for Unilever Indonesia. One scheme has involved training unemployed youths to become entrepreneurs selling Unilever products, while another has created a new distribution channel for the company to reach small shops and kiosks in urban and rural areas. Unilever Indonesia is now establishing a business incubator to provide training and business advice for entrepreneurs.

Global reporting/local performance

Environment

All Unilever companies must comply with the Unilever Framework Standards for occupational health and safety, environmental care and consumer safety. Our environmental management system, which operates on a global basis, is designed to achieve continuous improvement and is compatible with international standards. It is supported by a range of environmental training courses.

Our target is to have all our main manufacturing sites certified to the ISO 14001 environmental management systems standard by the end of 2003. At the end of 2001 over a quarter of our sites were already certified.

We have a team of experts who provide specialist environmental help and guidance to our manufacturing plants throughout the world on issues ranging from boiler emissions to waste disposal. For example, they have produced guidelines on how to avoid unnecessary packaging and promote the use of recycled materials.

Saving energy

Reducing energy use saves money and reduces emissions. We have projects throughout the world to improve our energy efficiency.

In the United States, Unilever's Home & Personal Care Division cut energy consumption in offices and factories by over 10 per cent in 2001, despite a 25 per cent increase in production. The savings were largely due to a simple one-page spreadsheet that listed each site's energy costs alongside projected savings for the current year. "This generated real healthy competition between the plants. Everybody wanted to be green", said Jim Pease, energy and environmental manager.

We have projects throughout the world to improve our energy efficiency. Over 90 per cent of the energy used in the factories of Tea Estates India, Unilever's tea company in southern India, is from renewable sources, mainly plantation timber. The company has also invested in two windmills to supply electricity.

Saving water

Clean water is essential for our business. It is needed to irrigate crops. Our factories need it to make our products and our consumers must have clean water to use our products. We make special efforts to reduce the use of water at all our factories throughout the world. At the Goiania tomato processing factory in central Brazil, water is used to carry the fresh fruit into the factory for washing and processing. The water is either re-used in the factory or, if it contains tomato pulp, is used by local farmers for irrigation. The pulp has proved to be an effective fertilizer.

In France, our Amora Maille mustard factory has cut its water consumption by up to 40 per cent. The savings have been achieved through a combination of new machinery and staff training which has led to better working methods.

Social

Unilever has a long tradition of being a socially responsible company, although it is only in recent years that we have started to develop our approach to reporting on our social performance. We aim to manage our social responsibilities as professionally as any other aspect of our business.

Our approach has been to carry out research to establish what our businesses around the world are doing that contributes to society – our “social footprint” – in order to identify what we can measure and where we can improve.

Some performance measures and targets are already set and measured globally, such as health and safety. However, not all social impacts can be measured in every country, either because it is difficult to do so in a consistent way, or because local laws or the absence of relevant measures prevent us from doing so.

In 2002 we conducted a pilot study in 11 countries, representing more than a third of Unilever's worldwide sales. This identified a number of valuable performance indicators that are helping us work out what it is practical and realistic to measure globally.

One global performance measure is the wealth we create by adding value to the raw materials we buy around the world as they are processed into branded goods in our local markets. This wealth is shared among our stakeholders in the form of wages, taxes, dividends and community investment. Employees are the single largest group to benefit, receiving around 50 per cent of the value we add.

Our pilot study showed that growing numbers of employees receive training away from their home countries. Not only is this an investment in the individual and in Unilever's future, but also it represents an important transfer of skills between countries.

We aim to manage our social responsibilities as professionally as any other aspect of our business. We spend about 1 per cent of our pre-tax profits on community initiatives each year. This amounted to around €57 million in 2001. Over half the total is spent on health and education programmes, and the proportion of community investment in different regions of the world is broadly in line with our turnover.

The Co-operative Bank

Jayne Beer

*Manager, Sustainability Reporting & Diversity
The Co-operative Bank*

The Co-operative Bank

The Co-operative Bank can trace its origins back to 1872 and the formation of the Loan and Deposit Department of the Co-operative Wholesale Society (CWS). Four years later it changed its name to the CWS Bank and although in the early years it only took deposits and granted loans to the thousands of local retail co-operative societies, it was not long before it was acting as a bank for personal customers.

The Bank grew steadily, with branches opening in Newcastle, London and Glasgow. After the First World War, the first in-store banking points were established in Co-op stores and more branches were opened in key locations. By 1972 the Bank, which was then known as the Co-operative Bank, had 32 branches throughout the country. In 1975 the Co-operative Bank became the first bank for some 40 years to join the Committee of London Clearing Banks and from then on it has grown at a rapid rate.

In addition to over three million customer accounts, the Bank is banker to local authorities, many businesses and particularly the retail co-operative movement. It employs 4,200 staff, of whom 70 per cent are based in the North-West of England.

The Bank's chosen market position is to be "a modern bank which goes about its business in an ethical manner". Its customer proposition is: "The Co-operative Bank enables customers to take greater control of their money, to use for the good of themselves and others".

In 1997 the Bank celebrated its 125th anniversary by launching its Partnership approach, becoming the first company in the United Kingdom to produce a "warts and all" social report involving all of the seven partners involved in the Bank's activities.

Today, the Co-operative Bank is the only UK Clearing Bank to publish an ethical stance whereby it clearly tells its customers with whom it will and will not do business. Since the launch of its ethical positioning in May 1992, thousands of concerned people who do not wish their money to be used for unethical reasons have had the opportunity to choose a bank which will not do business with unethical companies and organizations.

The Partnership Approach

The evolution of the Partnership Approach

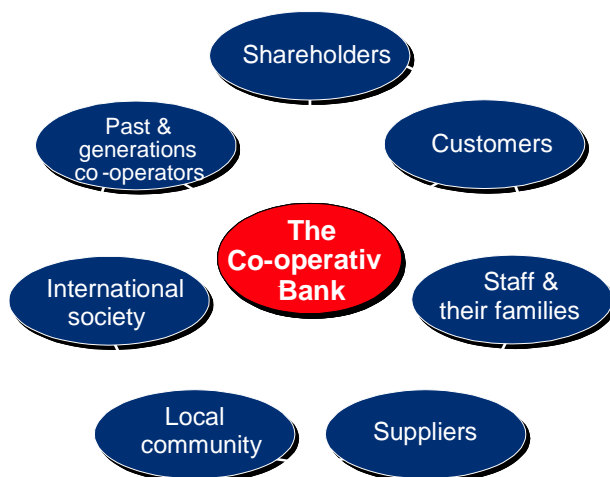
Introduced fully in 1997, our Partnership Approach has evolved over a 10-year period. In that time, there have been three key developments:

Our Mission Statement: Published in 1988, this aimed to define how the original principles of cooperation could provide the basis for a successful business in the modern world. A central theme was the principle of inclusion – the belief that we should take account of the interests of all parties affected by our activities, not just shareholders.

Our Ethical Policy: Announced in 1992, and developed in close consultation with our customers, this sets out as clearly as possible with whom we will and will not do business. It has been criticized by some, but its enormous success could never have been achieved unless it had genuinely reflected the beliefs and wishes of our customers. And to ensure that it continues to keep pace with their changing concerns, we regularly consult our customers, and make revisions accordingly.

Our Ecological Mission Statement: In our Ethical Policy, we promised to invest our customers' money in companies that avoid repeated damage of the environment. But in 1996, we went much further – setting out, in four rules, our understanding of the minimum conditions for an ecologically sustainable society. The purpose of this was to enable us to identify areas of business activity that fail to meet these conditions, so that we could draw up an action plan that reduces economic dependence on such activities. The ecological considerations that make up the Mission Statement are essentially non-negotiable facts of life. Therefore, it is not anticipated that the statement will require constant revision.

In 1997, with the introduction of its *Partnership Approach*, the Bank brought these strands together. Seven stakeholder groups, or partners, were identified:



It seemed clear that the next inevitable step was to commit ourselves to delivering benefits to all our Partners in a socially responsible and ecologically sustainable manner. More than that, we needed to acknowledge our interdependence: just as our Partners depend on us, so we depend on them for our continued success, and must run our business accordingly.

It may sound straightforward in theory, but in practice, it presents enormous challenges, the biggest of all being the question of balance. In many cases, it's a simple matter to define a specific obligation towards one of our Partners, and to work towards fulfilling it. But from time to time, we're faced with a conflict of interest where giving to one Partner will mean taking away from another.

For example, in 1996 we closed and relocated a number of our personal branches. This was warranted as these particular facilities were poorly utilized. All customers still had access to our telephone banking service, and recently have been able to conduct day-to-day transactions at local post offices throughout England and Wales. However, our research indicated that a number of customers were concerned that closure would have a negative impact on the town centre and local community.

Put simply, what this case illustrates – along with many others like it – is that we can't please all of our Partners all of the time. For us, accepting this, and trying to achieve the best balance possible, is the most critical aspect of making our Partnership Approach work in practice.

It's also, of course, the reason why we need a Partnership Audit. If we could deal with each of our Partners in isolation, it would be easy to determine whether we were acting in their interests. But because each Partner relationship affects all of the others, we must attempt to gauge as accurately as possible how far we are succeeding in fulfilling our responsibilities.

Partnership auditing – seven groups, three areas of assessment

So how did we go about conducting our first Partnership Audit? First, we established a Partnership Development Team, whose responsibility it was to undertake a detailed assessment of the Bank's performance in relation to each of our Partner groups. To achieve this, research was undertaken to determine the areas of priority for each Partner. What were they seeking from their relationship with the Bank, and to what degree did we deliver value (as defined by the Partner, not the bank)? Furthermore, was value delivered in a socially responsible and ecologically sustainable manner?

There are three areas of assessment.

Delivering value: Only by delivering real value to each of its Partners can the Bank ensure that it remains viable for another century and a quarter. Therefore, we have determined the issues that matter most to each Partner and measured our performance accordingly. For example, on the basis of our research into areas of priority of customers, staff and suppliers, we assess our performance in meeting the following:

Customers	Staff	Suppliers
Service	Salary	Prompt payment
Relationship	Career opportunities	Good relationships
Values	Relationships	Fair treatment
	Job security	Effective communication
	Ethical values	

Social responsibility: Our customers, and other Partners, have indicated to us on more than one occasion that value should be delivered in a socially responsible manner. To this end, we have assessed to what degree we have treated each Partner in an ethical fashion.

The Co-operative Bank's Ethical Policy was adopted in 1992 and has since been reviewed in 1994, 1998 and 2001. The reviews were carried out after major consultation exercises: The latest consultation invited our over 2 million customers to give us their views – via a postal questionnaire, branch-based polling or via the website. The response rate for the 2001/2 ballot more than trebled to over 60,000 compared with the 1998 survey.

Put simply, the Ethical Policy governs who we will and will not do business with. The original poll provided us with a huge endorsement of the policy. And between 13 per cent and 24 per cent of our customers are influenced to open an account for ethical reasons. This actually means that up to £30 million of our profit before tax can be attributed to ethically motivated customers.

Ecological sustainability: The world in which we, and all our Partners, live has a limited capacity to provide for us. The planet has a non-negotiable, finite capacity to create resources and assimilate waste. Ensuring that this is recognized and incorporated into business strategy is critical to long-term success.

The Bank identified what is and is not a sustainable business activity. The Ecological Mission Statement was adopted in 1996, based on The Natural Step. Here are some examples of the company’s recent ecological performance:

- Carbon dioxide emissions were down by 90 per cent (compared with 1997, per customer account), two thirds of waste is now reused or recycled, and water usage has been reduced by 42 per cent (compared with 1998, per customer account).
- Land area with significantly enhanced biodiversity due to bank donations is 90 times larger than land occupied by the bank.
- The Ecology Unit assisted 200 ecological and social businesses with banking requirements.

Partnership reporting

In early 1997 we published “Strength in Numbers”, which explained who the bank’s Partners are and why we believe they are important to our success. Our first full Partnership Report was published in 1998 – and we published our sixth report in May this year. We believe that only through a continuing process of defining our responsibilities, assessing our performance and agreeing new objectives together with our Partners can we maintain and strengthen our position as Britain’s only truly “co-operative” bank.

The Bank decided that just as a company’s financial results have to be audited by accountants, so the much wider and more complex range of information contained in its Partnership Report required external verification. Having made the decision that only a “warts and all” assessment of the Bank would meet the demands of Partnership, we have as far as possible used data that have been independently verified by a credible third party.

The Bank also produces tailored summary versions of the report, including a customer statement insert and staff summary.

Awards won by the Co-operative Bank for the quality of its reporting:

2002	2003
UK Sustainability Reporting Awards Joint overall winner	UK Sustainability Reporting Awards Winner
Queens’ Award for Enterprise for SD	European Sustainability Reporting Awards Winner
Corporate Conscience Awards Special Judges’ prize	UK’s “Best Workplaces 2003”

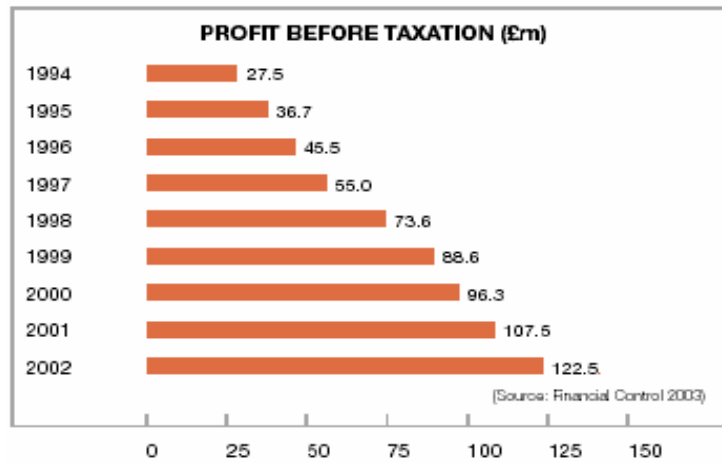
The Co-operative Bank's performance

Financial

Since the Partnership Approach was launched in 1996, profitability has more than doubled and the number of customers has increased by more than 30 per cent.

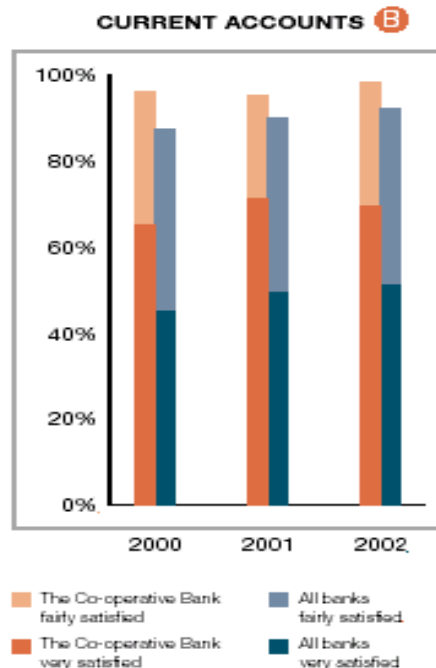
Since the Ethical Policy was launched in 1992, profitability has increased from £17.8 million to £122.5 million – a six fold increase.

The Ethical and Ecological Value Analysis for 2002 indicates that up to 24 per cent of pre-tax profit, or £30 million, is due to the Bank's ethical and ecological initiatives.



Customer satisfaction

The Bank commissions its own customer satisfaction research. In addition, the Bank supplements this research with data from MORI Financial Services Research which compares performance across the financial services sector. The Bank-commissioned research shows that satisfaction increased to 77 per cent (“excellent” or “good”).

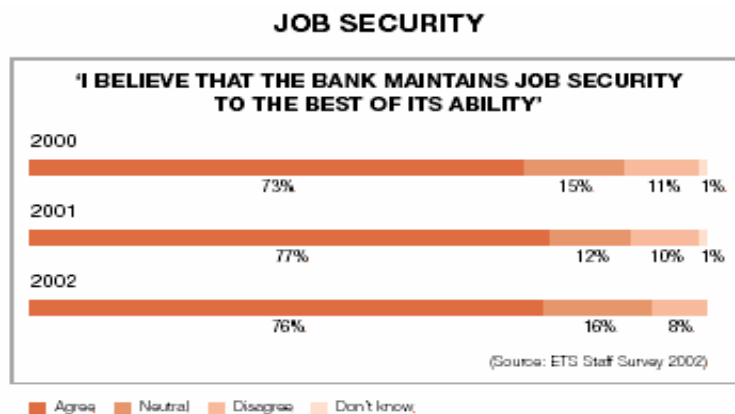


The MORI data indicate very high levels of satisfaction, with 98 per cent of responsible stating that they are very or quite satisfied. The Co-operative Bank performs well in comparison with other banks.

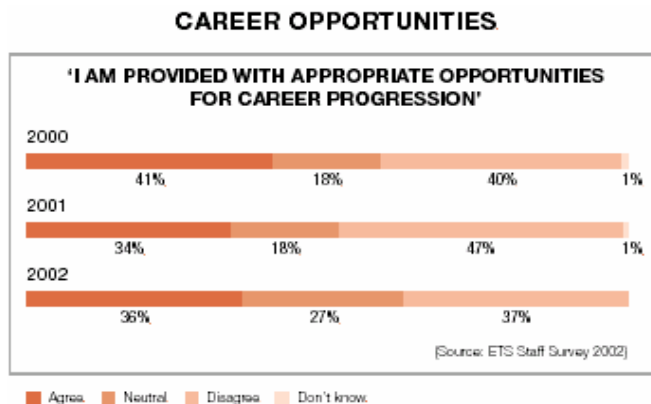
Staff satisfaction

Does this all sound too good to be true – increasing profits, high levels of customer satisfaction and being named one of the UK’s best places to work in each of the past three years? However, the reports are an open and honest account of our performance, and some of the results make for uncomfortable reading. For example, whilst the majority of staff remain satisfied with their job security – only one third are happy with opportunities for career progression.

The majority of the staff are satisfied with job security...

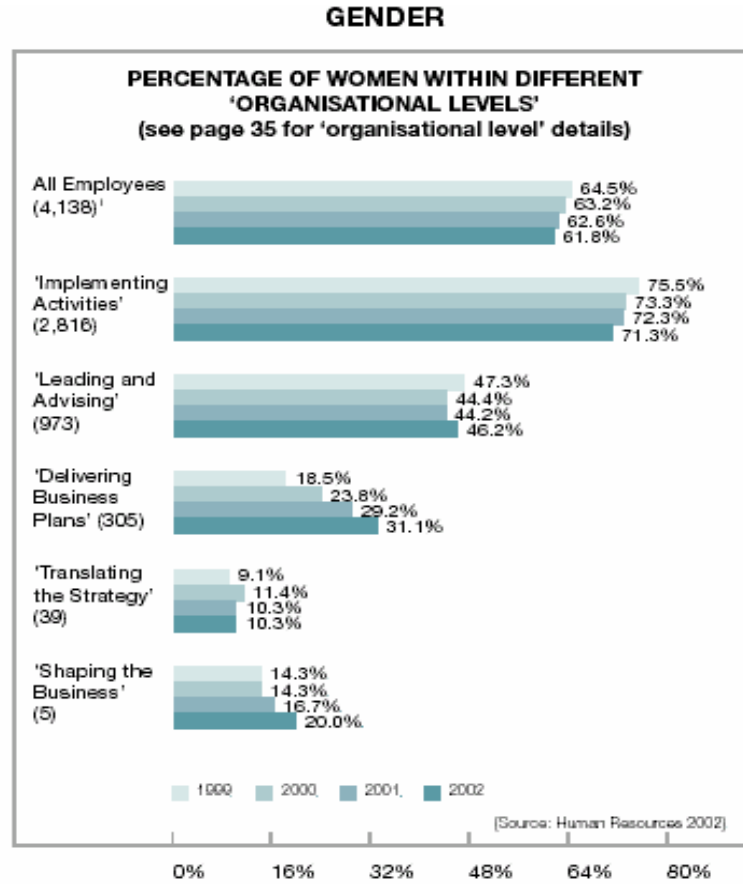


.....but fewer are satisfied with opportunities for career progression.

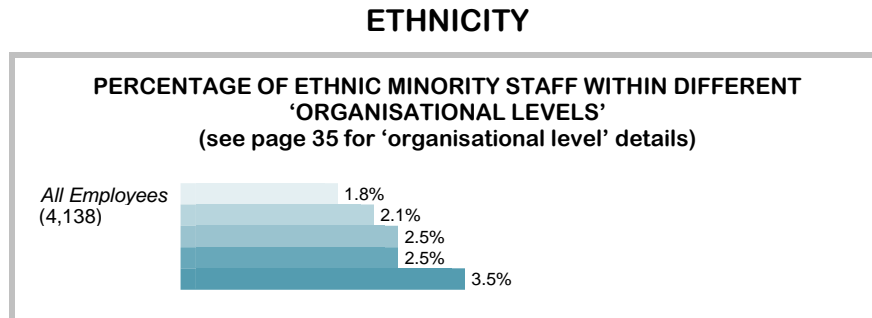


The Partnership Reports also contain examples of poor performance. There is no better example of this than diversity.

There is female progression through organizational levels...



...but numbers of employees from ethnic minority populations are still low.



Our performance is good in relation to the employment of women and their progression through the bank, but it is not good in relation to the employment of individuals from ethnic minority populations. The percentage of ethnic minority staff is significantly below the UK national workforce average (6.8 per cent).

The social responsibility section evolves as issues take on greater significance within society – for example, hardly a day goes by without the media referring to “work–life balance”, the United Kingdom’s “long hours culture” or rising levels of stress. One third of our staff feel under inappropriate pressure. To help address this we have launched a “well–being policy” and are evaluating the “work–life balance” policies to assess their effectiveness in tackling stress.

WELL-BEING

