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GUIDANCE ON CORPORATE RESPONSIBILITY INDICATORS IN ANNUAL REPORTS*

Executive summary

At its twentieth and twenty-first sessions, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), within the framework of its mandate on promoting harmonization of best practices on corporate reporting, recognized the limited relevance and lack of comparability of existing corporate responsibility reporting. During these sessions, ISAR also recognized the need to provide voluntary technical guidance on reporting on corporate responsibility as part of the information presented in corporate annual reports, with a view to contributing to improved comparability of such information without imposing undue additional burdens on reporting entities.

This draft guidance is prepared by the UNCTAD secretariat based on discussions that took place during the twentieth and twenty-first sessions of ISAR, as well as informal meetings held by the secretariat with an ad hoc consultative group during the intersession period. The document gives an overview of the principal stakeholders of an enterprise and their information needs; explains the criteria for the selection of core indicators of common interest to all stakeholders; and details the key topics and related indicators selected. A summary of the core indicators is presented in annex I.

* This document is being issued on the above date for technical reasons.

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INTRODUCTION

1. The São Paulo Consensus of UNCTAD XI stated that UNCTAD should "assist developing countries, in particular LDCs, to design and implement active policies for building productive capacity and international competitiveness based on an integrated treatment of investment, corporate responsibility, technology transfer and innovation, enterprise development and business facilitation (including transportation and information and communication technology), competitiveness, diversification and export capacity, to sustain a high level of growth and promote sustainable development" (TD/410, para. 49).

2. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) of UNCTAD has identified reporting on corporate responsibility (CR) as one of the emerging issues in the area of corporate transparency. Within the framework of its mandate to promote harmonization of best practices in corporate reporting, ISAR agreed at its twentieth session to "begin examining existing indicators so that corporate social responsibility reports would be comparable and would not impose unreasonable burdens on enterprises in developing countries".[1]

3. The work of ISAR in the area of corporate responsibility reporting takes place within a broader international context of work by other international organizations on various aspects of this subject. Such work includes the OECD Guidelines for Multinational Enterprises, the ILO Tripartite Declaration, the United Nations Global Compact and the Millennium Development Goals, among others. The proliferation of global conventions and guidelines on CR has led to a growing general awareness of CR issues in developed and developing countries. As a result, there is increasing demand for guidance on reporting information in this area.

4. While environmental issues are recognized as an important feature of corporate responsibility, this project does not focus on environmental issues, as ISAR has previously done extensive work in that area. In 1989 ISAR took up the topic of corporate environmental accounting. In the following years, several recommendations were published in this area: the 1999 report *Accounting and Financial Reporting for Environmental Costs and Liabilities* (UNCTAD/ITE/EDS/4); the 2000 report *Integrating Environmental and Financial Performance at the Enterprise Level* (UNCTAD/ITE/TED/1); and the 2004 manual *Eco-Efficiency Indicators* (UNCTAD/ITE/IPC/2003/7).

5. The report prepared by the secretariat for the twenty-first session, "Review of the comparability and relevance of existing indicators on corporate social responsibility" (TD/B/COM.2/ISAR24),[2] gives an overview of major existing initiatives and regulations on corporate responsibility reporting and outlines the main issues raised by the examination of the comparability and relevance of the related indicators. In particular, it discusses the question of whether the comparability and relevance of these indicators can be improved by focusing on a limited number of fundamental common indicators, or "core indicators". The report also discusses the scope of CR reporting and the potential users of such reports, as well as criteria that could be applied in selecting core indicators.

6. At its twenty-first session, ISAR agreed to continue working to develop guidance on voluntary disclosure to improve comparability in the area of CR reporting. In particular, it agreed that further deliberations were needed regarding the principal users of CR reporting, criteria for selecting topics and

[1] ISAR has changed the term "corporate social responsibility" that was used in document TB/B/COM.2/ISAR/24 to "corporate responsibility" to reflect the language of the São Paulo Consensus of UNCTAD XI. This paper refers to "corporate responsibility".

[2] Hereafter referred to as ISAR/24.

indicators, and the use of such information.[3] Accordingly, an ad hoc consultative group was formed consisting of experts from a range of countries and organizations (see annex II). This document reflects the past work of ISAR on CR reporting as well as the contributions of the ad hoc consultative group.

7. The focus of this guidance is on CR indicators as part of annual reporting.[4] The objective of an annual report is to provide information about the enterprise that is useful to a wide range of users in making economic decisions.[5] The ultimate goal of CR reporting, as of all corporate reporting, is to provide stakeholders with a greater understanding of an enterprise's aims, activities and performance, and sufficient information on which to base investment and economic decisions regarding that enterprise. Reporting of relevant and comparable indicators will enhance the transparency of enterprises, thus enabling shareholders and other stakeholders to properly evaluate enterprise performance in the broader context of sustainable development.

8. The purpose of this guidance is to contribute to voluntary disclosure on issues of CR, in order to improve the comparability and relevance of such reporting by organizations. The guidance addresses the principal users of CR reporting and their information needs, and it discusses the key issues and indicators relevant to an enterprise's social and economic performance, as well as the quality characteristics that should be taken into account when selecting indicators. The guidance may need to be further elaborated to discuss the extent to which it applies to small and medium-size enterprises (SMEs).

9. Including such information in annual reporting not only meets the information needs of a range of stakeholders but also offers the preparers a unique opportunity to showcase the conduct and contributions of the enterprise with regard to economic and social development. Transparency demonstrated in this respect can yield gains by increasing the public recognition of an enterprise's commitment, improving its reputation, enhancing its employees' motivation and reducing the risk of conflict with third parties. CR reporting can also be a valuable communication tool that contributes to an enterprise's culture and internal cohesion. Further, it may contribute to increased shareholder value and lower capital costs. In addition, in collecting relevant data, enterprises obtain information on their own organization and its operational context, which may lead to new market opportunities,[6] better risk management and better monitoring of performance.

10. To develop guidance on relevant and comparable CR indicators, the UNCTAD secretariat examined a total of some 350 existing indicators used in CR/sustainability reporting. The pool of indicators from which the preliminary selection was made included those used in national authorities' disclosure requirements, multi-stakeholder initiatives and corporate sustainability reports. The report (ISAR/24) prepared for the twenty-first session contained a preliminary list of suggested indicators within the existing reporting framework for corporate annual reports.[7] That list was drawn from surveys of stakeholder needs, with a view to identifying their common needs, and included indicators in nine areas: workforce profile, workforce turnover, training, employee representation, organization of working hours, health and safety, geographical spending, value chain and cases of non-compliance with regulations. At

[3] ISAR recognizes the work of the Global Reporting Initiative (GRI) as well as other organizations to develop specific social and environmental reporting indicators. ISAR's efforts are meant to complement the work of organizations developing CR reporting by promoting the harmonization and comparability of CR indicators and the inclusion of such indicators in a company's annual report. ISAR recognizes the efforts of organizations and the work of individual enterprises in the production of more elaborate stand-alone sustainability reports.

[4] This paper refers to CR indicators as reporting on economic and social impacts in the context of corporate responsibility in the annual report.

[5] International Accounting Standards Board (2005). *Framework for the Preparation and Presentation of Financial Statements*. London, IASB.

[6] For example, by increasing its awareness of stakeholder needs and interests, an enterprise may discover unmet demand for new products and services, underserved consumers for existing products and services, or new production and/or sales process efficiencies derived from avoiding certain costs and liabilities.

[7] See annex II of ISAR/24 (available at *www.unctad.org/ISAR*).

the twenty-first session, it was agreed that such information could also reflect corporate contributions to the economic, social and human capacity development of host countries.

11. During the twenty-first ISAR session, many participants expressed support for common topics in the field of CR. However, concerns were expressed about reporting on issues over which companies may have limited, indirect or even no control, and about the difficulties of reporting on complex subjects that may be hard to measure, especially in a comparable way.

12. It was agreed to adopt an incremental approach, focusing first on indicators that in principle could apply to all or most enterprises, regardless of sector, size or location, the intention being to maximize the comparability of the indicators. In addition, these core indicators would address issues the enterprise had control over and for which it already gathered information as part of its management systems. Once a satisfying reporting method for these issues was achieved, other issues could be added for which data gathering and interpretation were more complex and over which enterprises had no direct control, but which they might be able to influence.

13. ISAR acknowledges that, to achieve transparency towards an enterprise’s stakeholders and to present a more complete assessment of an enterprise’s performance, additional information may be necessary that is specific to the enterprise's industry and geographic context.[8] Quantitative data should be considered within the context of the social, political and economic conditions of the country in which the enterprise operates. Clearly the impact of corporations will vary from industry to industry, and therefore indicators can usefully be considered within their specific context. They can also be considered in relation to other enterprise performance factors by combining two or more indicators so as to highlight key relationships.[9]

14. In order to provide additional useful context, enterprises should disclose their policies and procedures as these relate to CR matters. A uniform descriptive format presented alongside the reporting of the indicators would be helpful to put the indicators into sufficient context. This format might include, among other things, a description of the enterprise's location and surrounding communities and stakeholders and its objectives regarding these stakeholders. The geographic context of an enterprise’s operations would need to be reflected, as locations can affect the materiality of certain issues; this is particularly the case in considering the circumstances of developing countries and the differences between legal norms and legal infrastructure that exist among countries. It would be useful to include a comparison to prior years and plans and targets for future years.

15. Therefore, a limited set of core indicators, providing a common benchmark in the area of CR reporting, should in no way be understood as precluding additional reporting on these issues that provides useful industry-, enterprise- and location-specific information.

I. PRINCIPAL STAKEHOLDERS AND THEIR INFORMATION NEEDS IN THE CONTEXT OF CORPORATE RESPONSIBILITY

16. The concept of corporate responsibility draws on the strategic management theory according to which managers can add value to an enterprise by taking into account the social and economic effects of an enterprise's operations when making decisions.[10] This theory claims that managers can best promote

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[8] Such additional information, including environmental information, could be provided in an enterprise's separate reports and/or on its website.

[9] See for example, the Global Reporting Initiative's *Sustainability Reporting Guidelines 2002*, Part C – *Report Content,* Section 5 – *Performance Indicators* (www.globalreporting.org).

[10] Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. New York, Pitman.

the long-term viability of an enterprise by balancing the needs of an enterprise's stakeholders with the financial requirements of sustaining and growing a business. Reporting on an enterprise’s performance in this area is therefore a means to provide shareholders and other stakeholders (as well as managers themselves) with an account of an enterprise's impact on society. This added transparency can make the enterprise more accountable to its principal stakeholders.

17. Enterprises should demonstrate how and to what extent they fulfill their responsibilities towards their stakeholders. These responsibilities are often, though not exhaustively, described and defined in existing regulations, codes, laws and international agreements. As organs of society, enterprises are increasingly being called on to demonstrate support for both international law and internationally agreed normative statements; this is most clearly reflected in the UN Global Compact. Failure to meet society's expectations in these areas may undermine an enterprise's license to operate.

18. Stakeholders are understood as groups of people who are affected by and/or can influence an enterprise, without necessarily holding an equity share of the enterprise. Their actions can affect an enterprise’s brand and reputation, its financial performance, and even its license to operate.

19. Communicating with stakeholders and ascertaining their views is therefore very important for enabling enterprises to provide relevant information. In doing so, enterprises ought to consider that the perception of usefulness and the use of such reporting are highly specific to the target group. To identify key issues, enterprises may engage in dialogue with stakeholders. This can be done in several ways – for example, through community panels, staff surveys, industrial relations, consumer surveys, opinion polls, workshops involving dialogue on specific issues, and meetings with external experts. Another method is to provide stakeholders with contact details and/or feedback forms in published reports or use company websites to encourage stakeholders to give input about the information they are interested in and about their opinions on the company’s behavior.[11]

20. Following is a discussion of key stakeholder groups and their information needs:

- Investors and financial institutions
- Business partners
- Consumers
- Employees
- Surrounding community
- Civil society organizations
- Governments and their institutions

21. This list comprises mainly groups already identified as users of financial reports – for example, by the International Accounting Standards Board.[12] It is expected that the inclusion of CR information in annual reports would not only give existing users additional useful information but also broaden the range of users to include additional stakeholder groups with a particular interest in the enterprise's impact on society.

22. ***Investors and financial institutions.*** The financial markets consist of various stakeholders, including shareholders, lenders, banks, rating agencies and analysts. While these entities have different

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[11] An example is the "Tell Shell" portion of the Shell Group's site www.shell.com.

[12] The International Accounting Standards Board identifies users of general-purpose financial statements in its framework. They include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. IASB (2005), *Framework for the Preparation and Presentation of Financial Statements* (www.iasb.org).

information requirements, there is nevertheless a growing recognition within this stakeholder category of the importance of non-financial information, including CR information, in the evaluation of long-term enterprise performance. The different information requirements stem largely from the time frames focused on by the various groups: whereas short-term investors may not take much interest in CR reporting, long-term investors, such as pension funds, are increasingly interested in such reporting in order to better judge future opportunities, risks, legal liabilities and the general quality of management. Additionally, factors beyond time frame are driving demand for more reporting on these issues. For example, there are non-financial pressures on pension fund trustees to align the social values of pension fund beneficiaries with the social performance of the companies in which the fund invests.[13] Another example is the growth of "socially responsible investment" funds that base their investments on social and environmental information as well as financial information.[14]

23. Non-financial performance indicators are taken into account by financial institutions when valuing companies, in particular when assessing risk. In general, financial institutions seek information enabling them to assess both the current and future performance of an enterprise. Typically, these institutions are not primarily concerned with improving CR per se but rather with the material impact that CR issues can have on a company's valuation.

24. CR information required by the financial sector includes the financial consequences of CR issues, the overall strategy of an enterprise, its risk and reputation management, compliance with laws and regulations, and the consequences of plant additions or closures and similar decisions. In benchmarking exercises (for example, when financial institutions choose enterprises for inclusion in social-ethical investment funds or indices), information needs to be presented in a way that allows comparisons.

25. ***Business partners.*** Business partners include potential or existing joint venture partners, suppliers, and customers. They will be particularly interested in the enterprise from a business relationship point of view. Enterprises that use CR reporting as part of due diligence on a future business partner or on the target of a future merger or acquisition need information that enables them to assess risks that might affect the enterprise's operations. They want to know how the enterprise addresses CR issues, including labour practices, human rights, legal compliance and fair business practices (anti-corruption, anti-trust, respect for contracts, technology transfer, fair pricing, timely payment of invoices, etc.). This information should relate to both the enterprise and the key business partners making up the extended value chain of that enterprise. An important element of this information is disclosure on governance and management systems that are in place to address CR issues.

26. ***Consumers.*** Consumers are interested in information on product safety measures, the effect of products on health, product quality, product liability and warranty, new product development and the product manufacturing process. Regarding the latter, they want information about the circumstances in which products are produced (e.g. working conditions). This group is not limited to present and future customers; it also includes former customers, who are interested in product liability and product warranty issues arising from past purchases.

27. ***Employees.*** An enterprise's present and future employees are interested in remuneration, the plans and intentions of the business, job prospects, working conditions, health and safety, industrial relations, risk management and personnel development opportunities. An enterprise's former employees, to the extent that they receive pension and other retirement benefits from the enterprise, also have an interest in the enterprise's present and future financial condition. Trade unions, as representatives of employees, already have access to employee-related information, at least for those enterprises with which they are

[13] UNEP-FI's Responsible Investment Initiative is an example of non-financial pressures' driving demand for social reporting. See *www.unepfi.org*.

[14] Further information on socially responsible investment (SRI) funds in the United States, for example, can be obtained from the Social Investment Forum, an SRI industry association (*www.socialinvest.org*).

affiliated. However, they may still find disclosure on employee issues useful when benchmarking against other enterprises, industries, or countries.

28. ***Surrounding community.*** Issues related to economic development are often the primary area of interest for an enterprise's surrounding community. These include questions about jobs, contributions to the tax base, and the secondary impact of an enterprise (through local business linkages and the multiplier effect of the local payroll). Also among a community's primary interests are issues related to the management of local health, safety and security risks and information on community complaints about corporate activities and how these are dealt with. With regard to security risks, communities have a natural interest in positive corporate contributions to the avoidance of human rights abuses; in particular, they need assurance that armed enterprise security employees are receiving proper training and supervision. In some contexts, the local community may also have concerns about the impact of an enterprise's operations on local culture; such impacts on culture can result from the introduction of new products or services, or from the generation of internal migration.

29. ***Civil society organizations.*** Civil society organizations, especially activist and relief-oriented non-governmental organizations (NGOs), use the information in CR reports as a basis for dialogue with the reporting enterprise. Civil society organizations are interested in a wide range of CR issues, including labour practices, human rights, anti-corruption efforts, economic development and environmental protection. They are particularly interested in information that enables benchmarking (comparison with other companies' performance) of an enterprise's record in this area. They also seek information on CR policy and its implementation.

30. ***Governments and their institutions.*** Governments are interested in the ways in which enterprises assume responsibilities toward society, in the voluntary initiatives of enterprises in this field, and in the impact of enterprises' social engagement. Governments need such information to help them formulate social and economic policies and identify gaps in regulation and enforcement. Some government offices also use such information when choosing suppliers.

II. CRITERIA FOR THE SELECTION OF CORE INDICATORS

A. Quality characteristics

31. As in the existing financial reporting framework, which provides principles underlying the usefulness of companies' reported information, the following quality criteria should be taken into account in selecting indicators that meet the needs of a wide range of users of corporate responsibility reporting:

- Comparability
- Relevance and materiality
- Understandability
- Reliability and verifiability

32. ***Comparability.*** Users should be able to compare the indicators over time and between enterprises so as to identify and analyse outcomes of changes in policy and management. For purposes of comparison over time, it is important to disclose corresponding information for preceding periods. If the methods used to measure, present or classify information are changed, comparative figures should be adjusted unless it is not practical to do so. The reason for a change should be explained via notes, and, where it is not practical to adjust comparatives, the reason for that should also be explained, as should the nature of the changes that would be required.

33. ***Relevance and materiality.*** To be useful, information should be relevant to meeting users' needs in forming an opinion or decision. Information is relevant when it influences the opinions or decision of

users by helping them to evaluate past, present or future events, or by confirming or correcting their past evaluations.

34. The relevance of information is affected by its nature and *materiality*. In some cases, the nature of the information alone is sufficient to determine its relevance. In other cases, both the nature and the materiality, as expressed in the relative quantitative variables, are important. Relevance, moreover, often depends on the circumstances relating to topics and recent events. Therefore, it could be relevant to provide more details – for example, breaking down some indicators by specific categories.

35. Information is material if its omission or misstatement could influence the decisions of users. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point, rather than being a primary qualitative characteristic that information must have in order to be useful. Enterprises choosing to omit an indicator because of materiality considerations are encouraged to state the reasons for this decision.

36. Currently there is still much discussion going on as to how to develop further guidance on a consistent application of the concept of materiality as it relates to non-financial reporting.[15] The management of the enterprise is responsible for making adequate decisions with respect to the application of the materiality principle and its effects on the content of the enterprise's CR reporting. Decision-making by the enterprise's management in relation to materiality should preferably follow a structured and substantiated process that is consistently applied to determine what information the enterprise considers to be of material importance and therefore necessary to include in its reporting. This process could include internal consultations with responsible officers, supervisory boards and/or audit committees; identification of and consultations with important stakeholder groups; consideration of particular issues that play a role in politics and public debate associated with an enterprise's activities, products and locations; and specific industry reporting guidelines. The decision-making process with regard to reporting materiality should be sufficiently transparent and understandable for third parties and should preferably be disclosed in the enterprise's reporting.

37. ***Understandability.*** The information on corporate responsibility must be understandable to the reader. This means that the manner of presentation has to be in keeping with the knowledge and experience of users and should include a user-friendly design, systematic dassification of topics and indicators, concise use of language, and an explanation of key terms in the text (or the inclusion of a glossary). Relevance takes priority over understandability, but the two concepts should not be seen as mutually exclusive. Information about complex matters that is relevant to users is not omitted merely on the grounds that it may be too difficult for some users to understand. In order to be properly interpreted, indicators must be reported in the appropriate context, such as information on related policies, management systems, and past performance. It is also helpful to use targets, both for measuring past performance relative to past targets and for forecasting future performance.

38. ***Reliability and verifiability.*** Information has the quality of reliability when it is free from material error and bias and gives a true, complete and balanced view of the actual situation. The information should be faithful to and representative of the actual situation in the business; complete within the boundaries of what is relevant; balanced in its treatment of positive and negative events; presented in the right context; and free of material misstatement. It should be neutral (free from bias). CR reporting is not neutral if, by the selection or presentation of information, it influences the making of a decision or judgment in order to achieve a predetermined result or outcome.

39. The indicator selected should allow for internal or external *verification*. The indicator should enable comparison with underlying evidence.

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[15] See, for example, the deliberations of the UK Department of Trade and Industry in the publication *The Operating and Financial Review Working Group on Materiality: A Consultation Document* (www.dti.gov.uk).

B. Guiding principles

40. The twenty-first session of ISAR identified the following principles that could be used in selecting core indicators on CR reporting:

- Universality to maximize comparability
- Incremental approach
- Capable of being consistently measured
- Impact oriented rather than process oriented
- Link to sustainable development

41. ***Universality to maximize comparability.*** The indicators should in principle apply to all enterprises, regardless of sector, size or location, the intention being to maximize the comparability of reported information.

42. ***Incremental approach.*** The selected indicators should first address issues that the enterprise has control over and for which it already gathers, or has access to, relevant information.

43. ***Capable of being consistently measured.*** The selected indicators should be able to be recognized, measured, and presented in a consistent way. This enables comparison over time and across entities.

44. ***Impact oriented rather than process oriented.*** The selected indicators should help users of corporate reports identify areas of corporate responsibility needing attention and measure the performance of the organization in addressing these areas. The social impact of business operations cannot be assessed solely on the basis of the management processes and policies adopted by enterprises in the context of corporate responsibility.

45. ***Link to sustainable development.*** Indicators should help to analyse the enterprise's contribution to the economic and social development of the country in which it operates.

C. Constraints on the selection of indicators

46. The twenty-first session of ISAR recognized the following constraints in selecting core topics and indicators on CR reporting:

- Costs and benefits
- Confidentiality
- Timeliness

47. ***Costs and benefits.*** The measurement of indicators and the provision of additional information in relation to indicators should not impose an unreasonable burden on enterprises, particularly those in the developing countries and in the SME sector. The incremental approach helps to addresses this issue through a focus on indicators that can be derived from data that enterprises already gather or have access to in the course of doing business, without incurring significant additional costs.

48. ***Confidentiality.*** The confidentiality of commercial information is often a crucial practical consideration for the success of an enterprise. Therefore, the selection of indicators should respect the confidentiality of commercial data as well as the confidentiality of any enterprise data relating to the right to privacy of natural persons (e.g. employee data). However, if a particular indicator is deemed material to the needs of stakeholders, then materiality could take precedence over commercial confidentiality where this does not conflict with legal requirements to keep the information confidential.

49. ***Timeliness.*** If there is undue delay in the reporting of information, the latter may lose its relevance. Conversely, if the reporting is delayed until all aspects are known, the information may be

highly reliable but of little use to users, who have had to make decisions in the interim. For timely (and hence appropriately frequent) reporting, the enterprise has to find a balance between relevance and reliability. The overriding consideration in this respect is how the information needs of users can best be met.

III. KEY TOPICS AND RELATED INDICATORS

50. Based on the criteria discussed in section II, the following topics and indicators were selected to cover significant areas of an enterprise's activities that have an economic and/or social impact and are of interest to the identified main users:

- Contribution to economic development
- Human rights
- Labour practices
- Human capital development
- Health and safety
- Community support
- Value chain
- Corruption

51. ***Contribution to economic development.*** An enterprise's contribution to the economy in which it operates consists of various aspects, including employment creation within the enterprise and throughout the value chain, tax payments and other fees, contributions to balance of payments, and transfer of skills and knowledge. Given the incremental approach adopted by ISAR, the focus of reporting in this category should be on direct economic contributions, rather than on the indirect economic impact.

52. One rather straightforward indicator is the total sales of an enterprise, which allows a calculation of the enterprise's contribution to GDP.[16] The value of an enterprise's exports in relation to its imports, as an indicator of its contribution to the balance of payments of the country in which it operates, could also give information about the enterprise's economic contribution to that country's economy; this issue is of particular relevance for developing countries which must manage their hard currency reserves.

53. One of the most significant positive economic contributions an enterprise can make to the community in which it operates is the creation of jobs and the payment of wages and other benefits to its employees. The total payroll of an enterprise, through the multiplier effect, supports the economic activity and economic development of the community in which the employees live.

54. Another significant economic contribution comes in the form of taxes and other fees paid to governments. This is particularly important for industries that do not have large payrolls or strong business linkages, and whose principal contribution to economic development is in the form of taxes.

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[16] Gross domestic product (GDP) is the total market value of the goods and services produced by a nation's economy during a specific period of time. GDP is customarily reported on an annual basis. It is defined as including all final goods and services – that is, those that are produced by the economic resources located in a nation, regardless of their ownership, and are not resold in any form. GDP differs from gross national product (GNP), which includes all final goods and services produced by resources owned by that nation's residents, whether located in the nation or elsewhere.

55. Enterprises often contribute to increases in labour productivity. This is especially true for transnational corporations that transfer knowledge and technology and invest in human capital formation. An individual enterprise's labour productivity is an indicator of the enterprise's contribution to the overall economic efficiency and competitiveness of the country in which the enterprise operates.

56. Following are selected core indicators:

- **Total sales (contribution to GDP)**
- **Value of imports versus exports (contribution to balance of payments)**
- **Number of employees (contribution to job creation)**
- **Total of all salaries and pension payments (contribution to local economic activity)**
- **Total of all taxes, fees, social security contributions, etc. (contribution to government finances)**
- **Labour productivity (contribution to economic efficiency)**

57. It may also be useful to provide a value-added model. The value-added model shows the additional value created throughout the production process and services provided, and the distribution of the added value to the various stakeholders.

58. ***Human rights.*** One of the most basic human rights is the right to life, liberty and security of person.[17] The United Nations Global Compact emphasises that enterprises should avoid complicity in human rights abuses. In cases where such complicity has arisen, it has often been associated with an enterprise's security arrangements and human rights abuses committed against members of a local community. Enterprises have a legitimate need to provide security for their personnel and equipment. In many situations this includes a need for armed security. However, when armed security employees are not properly trained and supervised, they can become a human rights risk for an enterprise's surrounding community, as well as a reputation risk and legal liability for an enterprise. The first step in identifying such risks is the identification of the locations where armed security is deployed, along with an indication of what types of security arrangements have been made.

59. Selected core indicator:

- **Number of enterprise operations with armed security (with breakdown by type of security: company employees, contractor, government)**

60. Additional useful information that could be provided includes an indication of any legal requirements concerning security arrangements; for example, in some countries, for some industries, enterprises are required by law to hire government security personnel.

61. ***Labour practices.*** Issues related to an enterprise's labour practices include equal opportunities, workforce turnover, and the right of workers to engage in collective bargaining.

62. The fundamental point when considering matters of equal opportunity with regard to, for example, gender, age or ethnicity is the human right not to be discriminated against, rather than any focus on diversity for diversity's sake. An enterprise's contribution to eliminating discrimination is a central feature of corporate responsibility. The extent to which an enterprise reduces discrimination can also be considered a measure of the management team's ability to recruit and retain people on the basis of merit. Given the guiding principles for selecting indicators, and in particular the universality principle, the related core indicator below focuses on the issue of gender discrimination. While instances of discrimination based on race or religion, among others, could be regarded as widespread, such forms of

[17] Article 3 of the Universal Declaration of Human Rights.

discrimination are almost always particular to a specific cultural context and do not lend themselves to international comparison.

63. Selected core indicator:

- **Number of female employees (with breakdown by function[18])**

64. Workforce turnover rates reflect the job security of employees and the employment practices of an enterprise. Some companies use short-term employment contracts to deny these workers the benefits offered to full-time employees, or to be able to quickly remove employees without giving them the benefit of legal employment protections. These issues can be initially reflected in an enterprise's turnover statistics, which can be compared to industry averages and to best practice within the enterprise's industry or even other industries.

65. Selected core indicator:

- **Employee turnover rate (with breakdown by function)**

66. Additional useful information that may be provided includes the average employee tenure with the enterprise; a breakdown of employees' reasons for leaving the enterprise; and the number of seasonal workers employed by the enterprise. Seasonality is a special consideration, and enterprises engaged in seasonal industries should clearly provide this context to the above recommended indicators.

67. Employees have the internationally recognized rights to establish and join organizations of their own choosing and to have representative organizations for the purpose of collective bargaining. Whether or not employees exercise these rights in practice varies by location, industry and enterprise. For stakeholders trying to assess the relationship between management and workers, it is helpful to know how many employees are covered by collective bargaining agreements.

68. Selected core indicator:

- **Percentage of total employees covered by a collective bargaining agreement (with breakdown by employee function)**

69. ***Human capital development*** One of the ways in which companies can best contribute to local communities is by enabling employees to develop their skills. Training local employees leaves them in a stronger position to obtain new employment or start their own businesses. In economic terms, training of employees represents the management's conscious effort to invest in its human capital.

70. There are two dimensions to the issue of transfer of skills and knowledge. Internally, investment in training represents the building and maintenance of knowledge within the company as well as the creation of development opportunities for employees. Information on internal promotion related to training demonstrates the value an enterprise places on the development of its employees. To give insight into the financial consequences of training, figures on total expenditures (of money or time) on training could be analysed in conjunction with labour productivity improvement.

71. There is a more general linkage between training employees and building capacity in society. To describe this, a breakdown of investment in training into categories such as investment in supplier training, company training, and local community training, or simply into categories that are internal and external to the enterprise, would be useful. Linked to the issue of transfer of skills and knowledge is the question of whether an enterprise hires trained staff or trains its own staff (in-house training versus buying expertise via new employees). Therefore, a link between training hours and workforce turnover could be made in analysing the economic and social impact of an enterprise.

[18] This refers to the type of employment (management, worker, etc.). A precise typology or uniform classification of employee functions would need to be developed for compiling this indicator, as well as other indicators in this document that refer to "function" or "employee function".

72. Selected core indicators:

- **Training hours for internal training (with breakdown by employee function)**
- **Expenditure on internal training (with breakdown by employee function)**

73. Additional useful information includes the total work hours per year compared to total training hours per year and a breakdown of investment in external training (for suppliers, distributors and members of the local community). Integrated indicators might also be useful, such as a comparison of the number of training hours with workforce turnover rates in order to provide insights into the effectiveness and efficiency of the personnel development measures of an enterprise. Another integrated indicator could be the relation of investment in training to labour productivity improvements.

74. ***Health and safety.*** Employee health and safety represents one of the most important corporate responsibility issues confronting organizations. This is particularly true for companies operating in an environment with weak regulatory infrastructure. Occupational accidents lower employee productivity, undermine human capital development, divert management attention, and could be symptomatic of poor management quality.

75. Enterprises should disclose the policies and procedures they have adopted to preserve and protect the health and safety of their employees in the workplace. A possible quantitative expression of an enterprise's efforts on occupational health and safety could be the amount spent on prevention and treatment.

76. Accidents, near-misses, injuries, illnesses, and fatalities are aspects of occupational health and safety that should be dealt with by means of quantitative indicators. Clear definitions are needed regarding what actually constitutes an accident or injury, since this is often shaped by industry specific-perceptions and country-specific regulations. In addition to year-to-year rates of work days lost because of accidents, injuries and illness, there could be an integrated indicator relating investments in health and safety at the workplace to improvements in other factors such as productivity and turnover. In affected regions, the inclusion of indicators regarding HIV and malaria is important.

77. The issue of health and safety extends beyond the boundaries of the enterprise. Surrounding communities can benefit, for example, from support provided by the enterprise for the families of employees, an enterprise-run hospital that also serves the local community, or training in occupational health and safety for suppliers. This benefit can be demonstrated by disclosing the amount of money invested in such programmes. Data on absences related to the illness of family members can serve as an indicator of local health and safety problems and provide a link to a need for the enterprise's community involvement.

78. Selected core indicators:

- **Expenditure on employee health and safety**
- **Work days lost due to accidents, injuries and illness**

79. Additional useful information includes the number of fatal accidents; expenditure on health and safety for non-employees (e.g. family members of employees); and employee absences owing to family-related illness as an indicator of local health and safety problems and as a link to the enterprise's community involvement.

80. ***Community support.*** Many enterprises support the communities in which they operate through donations of cash, goods and services. These direct contributions can result in significant positive contributions to, for example, the sustainable development of local infrastructure such as schools and hospitals, as well as the provision of emergency relief in times of natural disaster.

81. Selected core indicator:

- **Donations to civil society (with breakdown by type [incidental charitable donations, long-term commitment to community projects, and sponsorship activities] and by nature [cash, goods, services])**

82. Additional useful information that could be provided includes the number of employee hours donated to community projects and the number of meetings with community groups to discuss community needs. In the case of non-cash donations, enterprises should disclose the method of calculating the value of the donated goods or services.

83. ***Value chain.*** Although reporting on value chain issues is difficult in many industries owing to rapid fluctuations in value chain composition and activities, the way an enterprise addresses the CR aspects of its value chain should not be excluded from reporting.

84. Fundamental to corporate responsibility issues in an enterprise's value chain management is the issue of dependence. In many value chains, certain suppliers or distributors become dependent for a substantial portion of their business on a single, often large enterprise; this large enterprise is referred to in economics literature as the "core firm" of the value chain.[19] A "dependent supplier" is a supplier whose substantial output is purchased by the reporting enterprise. A "dependent distributor" is a distributor whose substantial revenues are derived from sales of items purchased from the reporting enterprise.[20] In these situations, and as a result of this relationship of dependency, stakeholders assign responsibilities to the core firm because the core firm has the capability of influencing the performance of its dependent value chain. Therefore, a fundamental indicator is how many members of the value chain are dependent on the core firm. Another important factor is the geographic location of the dependent members of the value chain; dependent members of the value chain located in countries with weak legal infrastructure, or poor records on social and environmental performance, may be of particular concern for an enterprise's stakeholders.

85. The promotion of equal opportunities, health and safety and human capital development are examples of issues that are often associated with a core firm's responsibilities towards its value chain. In addition, the economic health of suppliers and distributors in the value chain of a core firm is an important CR issue. An equally important economic issue is how value chain decisions can affect the broader economic health of the country in which an enterprise operates; this would include decisions related to the distribution of value added as well as decisions related to the national origin of products sourced.

86. Since enterprises can only influence those members of their value chain which are in some way dependent on the enterprise, the interpretation of CR indicators related to suppliers and distributors begins with some understanding of the number of dependent suppliers and distributors within an enterprise's value chain.

87. Selected core indicator:

- **Number of enterprises in the dependent value chain (with breakdown by supplier, distributor and location)**.

88. Additional useful information that could be provided includes the number of employees in the dependent value chain (breakdown by suppliers, distributors, and location) and the amount of money

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[19] Ruigrok, W., and R. V. Tulder (1995). *The Logic of International Restructuring*. London, Routledge.

[20] The term "substantial" indicates a level of business such that the supplier or distributor would suffer a major negative financial impact should the business relationship with the core enterprise cease to exist. An exact threshold in terms of the percentage of business involved may vary from enterprise to enterprise or industry to industry. For example, in the purchasing practices of a particular Fortune Global 500 enterprise, the threshold of 40% of output from suppliers is used. This may, however, not be the most appropriate threshold for all enterprises, and clearly there are degrees of dependency. A threshold or a range of dependency would need to be clarified for compiling this indicator.

invested in training and development activities for the dependent value chain (breakdown by suppliers, distributors and location).

89. ***Corruption.*** Corruption is internationally recognized as an obstacle to economic development and a hindrance to international trade and investment. Laws against corruption exist in virtually every country in the world. This anti-corruption position is also found in normative international guidance, such as the OECD Guidelines for Multinational Enterprises and the UN Global Compact; additionally, it can be found in the international conventions of the OECD and the United Nations. Corporations can make a positive contribution to respect for anti-corruption laws and international norms by ensuring that they are not involved in corruption. A basic measurable performance indicator in this regard is the number of legal infractions a company incurs as a result of corrupt practices. This indicator can provide useful information to stakeholders about legal liabilities and areas of the enterprise's internal control that require attention.

90. Selected core indicator:

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

91. Additional useful information includes a description of any punitive measures other than monetary fines imposed by a government for infractions related to corruption.

CONCLUSION

92. The twentieth and twenty-first sessions of ISAR recognized the limited relevance and lack of comparability of existing CR indicators that enterprises were reporting on. During these sessions, ISAR also recognized the need for providing voluntary technical guidance on reporting on CR as part of information presented in corporate annual reports, with a view to contributing to improved comparability of such reporting without imposing undue additional burdens on reporting entities. In accordance with the agreed conclusions of the twenty-first session of ISAR, the UNCTAD secretariat is presenting this draft voluntary guidance on CR reporting for consideration by the twenty-second session of ISAR.

93. Should the twenty-second session of ISAR find the approach proposed in this draft voluntary guidance acceptable, the Group of Experts could consider the possibility of using it to review enterprise reporting practices with a view to facilitating comparability and identifying areas for further refinement of the document. One such area could be follow-up work on a measurement methodology for the selected indicators to ensure consistent reporting.

ANNEX I: SUMMARY OF SELECTED CORE INDICATORS

Group	**Sub-group**	**Indicator**
Contribution to economic development		1. Total sales (contribution to GDP) 2. Value of imports vs. exports (contribution to balance of payments) 3. Number of employees (contribution to job creation) 4. Total of all salaries and pension payments (contribution to local economic activity) 5. Total of all taxes, fees, social security contributions, etc. (contribution to government finances) 6. Labour productivity (contribution to economic efficiency)
Human rights	*Security*	7. Number of enterprise operations with armed security (with breakdown by type of security: company employees, contractor, government)
Labour practices	*Equal opportunity*	8. Number of female employees (with breakdown by function)
	Workforce turnover	9. Employee turnover rate (with breakdown by function)
	Collective bargaining	10. Percentage of total employees covered by a collective bargaining agreement (with breakdown by employee function)
Human capital development		11. Training hours for internal training (with breakdown by employee function) 12. Expenditure on internal training (with breakdown by employee function)
Health and safety		13. Expenditure on employee health and safety 14. Work days lost due to accidents, injuries and illness
Community support		15. Donations to civil society (with breakdown by type and nature)
Value chain		16. Number of enterprises in the dependent value chain (with breakdown by supplier, distributor and location)
Corruption		17. Number of convictions for violations of corruption-related laws or regulations and amount of fines paid/payable

ANNEX II: MEMBERS OF THE AD HOC CONSULTATIVE GROUP

Mr. Andre Baladi – Co-Founder, International Corporate Governance Network

Ms. Justine Bentham – KPMG

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Ms. Liz Umlas – KLD Research & Analytics, Inc.

Mr. Michael Urminsky – International Labour Organization

Ms. Ambreen Waheed – Responsible Business Initiative

Mr. Hazen Yassin – Capital Market Authority

Mr. Santiago Zorzopulos – Dubai Ethics Resource Center

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

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GUIDANCE ON CORPORATE RESPONSIBILITY INDICATORS IN ANNUAL REPORTS

Corrigendum

Annex II, in the list of the members of the Ad Hoc Consultative Group, the affiliation for Mr. Robert Langford should read:

Mr. Robert Langford – Independent consultant

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