

THE STATE OF PLAY IN SUSTAINABILITY REPORTING IN THE EUROPEAN UNION

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This study is part of a services contract for the European Commission to support the High Level Group on Corporate Social Responsibility.

The project was led by adelphi with support from CREM, PPRC, SOMO and ICLEI.

This publication is commissioned under the European Union's Programme for Employment and Social Solidarity - PROGRESS (2007-2013).

This programme is managed by the Directorate-General for Employment, social affairs and inclusion of the European Commission. It was established to financially support the implementation of the objectives of the European Union in the employment and social affairs area, as set out in the Social Agenda, and thereby contribute to the achievement of the Lisbon Strategy goals in these fields.

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Citation

Wensen, Katelijne van; Wijnand Broer; Johanna Klein and Jutta Knopf 2010: The state of play in sustainability reporting in the EU.

Editor

Arne Peter Braaksma

Cover photo

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The State of Play in Sustainability Reporting in the European Union 2010

FINAL REPORT

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As of January 2011

Foreword:

It may not at first seem obvious what reporting, disclosure, or transparency has to do with corporate social responsibility (CSR), but it is indeed a subject that has caught the attention of CSR stakeholders over recent years. For public policy, when a company is obliged, coaxed or encouraged to report on its CSR activities, it is a key means of "leveraging" more CSR.

The Commission launched this study, "The state of play in sustainability reporting in the European Union", following a series of interactive workshops on CSR transparency and disclosure that had been organised in 2009-10 under the auspices of my colleague Antonio Tajani. The Commission's aim in undertaking the study was to illustrate how companies deal with CSR reporting in practice. We asked our consultants to come up with forward-looking conclusions to point the way ahead to future CSR transparency work.

In undertaking the study, the Commission achieved the buy-in of a number of stakeholders, who helped us produce a result that better reflected their wishes and concerns. The Commission thanks EU Member States representatives, enterprise representatives, trade unions, non-governmental organisations, socially-responsible investors, and academic representatives for their valuable input.

The study looks at 1) how companies report and the challenges in reporting, 2) the extent to which companies' reporting practices and readers' needs match, and 3) what public policy instruments are available to stimulate reporting. The study notes the extent to which CSR reporting has increased in recent years – although it clarifies that there is still a lot to do.

The study shows that companies report because it enhances reputation, even though for some it is costly. Companies face challenges in selecting what to report on, in how sensitive different data is, in organising content, and in correctly pitching quality.

The research reveals that readers of CSR reporting look for a genuine attempt by companies to honestly and realistically portray their CSR activities, in a way that is a useful contribution to readers' assessment of the sustainability of companies' activities.

Where the study matches companies and readers' perspectives, it finds that regulation of reporting, CSR reporting integrated with financial reporting, and stronger stakeholder engagement are key influences in the face of certain unmet needs of readers.

Governments can and are active in the area of CSR reporting, whether only through awareness-raising or through going as far as legislation. In a complex area where stakeholders' demands are not uniform and different reporting schemes contain asymmetrical requirements, the key challenge for public policy will be how to engage inclusively at different levels of detail to increase the number and quality of CSR reports or reports covering CSR.

This study has come at a key time as the Commission is about to assess responses it has received from an open public consultation on non-financial reporting, a consultation that could have legislative implications. I would like to take the opportunity to thank our consultants Adelphi Consult and their colleagues, and commend this study to our stakeholders as a contribution to the debate on the future of CSR reporting.



László Andor

Commissioner for Employment,
Social Affairs and Inclusion

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LIST OF ABBREVIATIONS

CDP	Carbon Disclosure Project
COP	Communication on Progress
CSI	Corporate Social Investment
CSR	Corporate Social Responsibility
EMAS	Environmental Management and Audit Scheme
EMS	Environmental Management System
E-PRTR	European Pollutant Release and Transfer Register
ESG	Environmental, Social and Governance
ETS	Emission Trading System
ETUI	European Trade Union Institute
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
KPI	Key Performance Indicator
MNE	Multinational Enterprise
MoU	Memorandum of Understanding
OECD	Organisation for Economic Cooperation and Development
PRI	Principle for Responsible Investment
SME	Small and Medium Enterprise
SRI	Socially Responsible Investment
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environmental Programme
UNGC	United Nations Global Compact
XBRL	eXtensible Business Reporting Language
XML	eXtensible Mark-up Language

Acknowledgement

This study could not have been accomplished without the contributions of numerous people. Their participation in interviews or provision of written feedback was highly appreciated, as well as that the feedback provided on draft versions of the report was welcomed for improving the contents of this report.

CREM and adelphi thank all members of the Corporate Social Responsibility High-Level Group of EU Member States' Representatives, the European Commission's Interservice Group on CSR and the European CSR Multi-Stakeholder Forum for their feedback provided during the Steering Committees and HLG meetings.

Special thanks to Susan Bird of DG Employment, Social Affairs & Inclusion, for guiding the process on behalf of the European Commission.

In addition, CREM and adelphi thank reporting experts Isabel Garro Hernández (Global Compact Network Spain), Isabella Pagotto (Global Reporting Initiative), Laura Maanavilja (CSR Europe) and Roger Adams (Association of Chartered Certified Accountants), for their contributions to the draft reports of the State of Play in Sustainability Reporting in the European Union.

For the companies' perspective, the readers' perspective, and for general information on sustainability reporting, people were interviewed. Special thanks to those who contributed: Theresa Fogelberg, Mike Wallace, Bastian Buck, Nelmara Arbex, Marjella Alma and Maaïke Fleur (Global Reporting Initiative), Inés García-Pintos Balbás (CECA), Jorge Quintas Serrano (Quintas e Quintas), Hillary Parsons (Nestlé), Nicolaus Tacke (Coca-Cola), Eduardo Serra (Telefónica), Alan Knight (AccountAbility), Michel Bande (Solvay) and Christina Jacobsen (Dong Energy). Thanks are also expressed to all individuals or organisations, which have not been mentioned by name here, but who contributed directly or indirectly (and anonymously) to this study.

1 Introduction

1.1 Background

Sustainability reporting is the provision of environmental, social and governance (ESG) information within documents such as annual reports and sustainability reports (hard-copy or web-based, e.g. downloadable in PDF-format). 'Sustainability reporting' is a broad term and many authors on this field consider it synonymous with Corporate Social Responsibility (CSR) reporting, ESG reporting and non-financial reporting as a 'counterpart' of financial reporting, which is common for most companies in their annual and financial reports.

In this study, a sustainability report is defined as a document in which the information on sustainability issues is presented, either available in hard-copy, in PDF-format or other online versions via the company's website, apart from or integrated in the annual report.

The European Union (EU) has actively promoted the topic of CSR and has stressed the potential of CSR in contributing to economic growth and jobs. Reporting on CSR, sustainability reporting, is thought to be one of the most important factors in making CSR a central management topic for a company. Indeed, sustainability reporting is used by companies to measure, disclose, and be accountable to internal and external stakeholders with regard to their environmental, social, economic and organisational performance.

Since the 1990s the number of companies disclosing information on their environmental, social and governance performance has grown significantly. For many large multinational companies, sustainability reporting has become a mainstream phenomenon. The quality of these sustainability reports, and the disclosure on ESG in a more general perspective, varies however. Differences in attitudes and activities regarding sustainability reporting exist between various industries, companies of different sizes etc. The EU is the most active region in the world regarding sustainability reporting, but also here, the approach to sustainability reporting varies widely among Member States. In some countries reporting is more advanced than in others in terms of voluntary or mandatory reporting by companies (or a combination of these), or more advanced in terms of corporate actors active in developing effective and innovative practices for sustainability reporting.

The state of play in sustainability reporting in the European Union can be used as an indicator on how far European companies have come in terms of integrating sustainability into management practice, on how well the sustainability reports are addressing stakeholders, and on the potential of national and international (policy) instruments for the uptake of sustainability reporting by companies.

1.2 This Document

This document provides an overview of the state of play in sustainability reporting in the European Union. The key questions that will be answered are:

- What is the state of play in sustainability reporting practices in Europe, also in the context of regulation, legislation and standardisation and what are experiences with regard to good practices and the lessons learned, both from the viewpoint of reporting companies as well as all stakeholders reading or using reports?
- To what extent does sustainability reporting in Europe meet the needs and expectations of both reporting organisations and readers, and how can this be further improved, according to all stakeholders?

The document does not intend to provide a comprehensive overview of reporting practices in all EU Member States, nor does it result in recommendations regarding the role of government in sustainability reporting. It does however provide a good picture of the general state of play in reporting and the challenges that reporting organisations and readers face. Moreover, it provides a picture of instruments available to government to regulate or stimulate the implementation and the quality of sustainability reporting. This information can be used by the EC, individual Member States and other stakeholders to formulate their own recommendations and to take further steps to optimize the role of sustainability reporting in society.

1.3 Approach and Methodology

This document is based on an analysis of documentation on sustainability reporting, including publications and research on sustainability reporting by several CSR (reporting) expert organisations conducted in the last few years, combined with general information derived from the EU Workshops on Disclosure of Environmental Social and Governance (ESG) Information (EU Workshops), which have been held between September 2009 and February 2010, contributions to the EU Workshops, and interviews with reporting experts and representatives from reporting organisations and reader groups. With this information the companies' perspective and readers' perspective towards sustainability reporting is analysed and presented. In addition, overviews of the most important national and international stimuli (reporting schemes, awards and rankings) are presented, providing insight in the use and impact of these stimuli. Moreover, five country cases studies were conducted to present an analysis of the (potential) role of public policy instruments in creating the right environment for sustainability reporting.

The study is limited to the state of play in sustainability reporting by companies; reporting by NGO's, governments and other organisations is not included. Furthermore, the study is limited to reporting by private companies, with a distinction being made between Multinational Enterprises (MNEs) and Small and Medium Enterprises (SMEs) where relevant and possible. In some cases differences between sectors are presented as well. However, this distinction is limited as it goes beyond this study to make distinctions at sectoral level at all points of interest. With regard to the reader groups, a

distinction has been made between investors (both socially responsible investors and mainstream investors) and analysts, civil society (including consumer organisations, NGOs, media/journalists and affected communities) and trade unions and employees.

This study is also limited to the different groups of readers *in general*, to what they want/expect from the reports, and to what companies *generally* provide and aim for. The study does not provide an analysis of specific reporting companies and their specific audiences. An analysis of the match between specific reporting companies and the audiences that actually read their reports (do companies reach their target audience and do they meet the needs of these readers?) would be a valuable exercise. However, this would require a more extensive research. Unfortunately, also other studies on the perspective of readers do not provide this viewpoint, and only address reader groups in general. Moreover, it should be realised that within each stakeholder group (including readers as well as companies) different opinions exist.

For this study 24 interviews have been conducted, mostly by telephone. Eight interviews were held with the different reader groups, representing (social) investors and analysts, media/journalists, NGOs and trade unions. Seven interviews were conducted with reporting companies, including both MNEs and SMEs and private companies as well as state-owned companies. Moreover, nine interviews were held with CSR (reporting) expert organisations and government representatives (also for feedback on the country case studies). In principle, the interviews are used anonymously in the report. Only when permitted by the interviewees, is reference made to the organisations concerned.

The research with respect to public policy instruments that have a direct or indirect effect on sustainability reporting performance is limited to a selection of five major regulatory schemes (inside and outside the EU). For each of these schemes a rough overview is presented. A more in-depth analysis of these regulatory schemes is beyond the scope of the study. The same is true for an analysis of statistical information about the status of reporting in *each* EU Member State and an analysis of existing legislation with regard to reporting in *all* Member States. Although such an analysis might provide valuable information on the effects of regulatory schemes, it is beyond the scope of this study.

All together, the study provides a picture of the most important issues, discussions and challenges for reporting companies, readers of sustainability reports and governments and other organisations involved in improving the number and quality of sustainability reports.

1.4 Terminology

In most literature, sustainability reporting is discussed as a part of “disclosure of” or “communication on” ESG information. Reviewing standards, codes, guidelines and other informative documents shows that there is a multitude of terms and concepts that

is being used¹. Moreover, in a recent study on trends in voluntary and mandatory approaches to sustainability reporting KPMG and partners notice a move away from the use of 'sustainability reporting' towards the more general concept of 'ESG disclosure' (KPMG et al 2010: 11). The EU Workshops on Disclosure of ESG Information also refer to this general concept. Reporting is considered to be a narrower concept than the term "disclosure". Furthermore, in this study the term 'sustainability reporting' is used. This term refers to and limits the study to the provision of sustainability information by companies, specifically only within documents usually called 'CSR Report' or 'Sustainability Report', in hard-copy version or web-based (e.g. downloadable in PDF format). This also means that the study focuses on sustainability reports being published separate from the annual or financial report. The term 'integrated reports' refers to sustainability reports integrated in the annual reports. Although the publication of integrated reports is expected to grow in numbers, the number of integrated reports is still relatively small at the time of this study. In this study, the use of integrated reports is discussed as one of the trends. With the expected growing number of integrated reports, in the future the sustainability report might not be recognizable as such any more.

Although the main focus is on separate sustainability reports, some information is also provided on companies reporting on sustainability issues within their annual report. This is referred to as 'sustainability reporting' (instead of providing a 'sustainability report'). Companies may be obliged to provide this information in their annual reports due to legislation or regulation. In some cases this obligation may constitute a first step towards a separate sustainability report or an integrated report. This also shows that the definition of a 'sustainability report' is not fixed. There are no minimum requirements for a report to be referred to as a 'sustainability report'. Where applicable other terms like 'disclosure' or 'non-financial reporting' will be used as well.

More definitions of terms used in this report are included in Appendix A.

1.5 Reader

The document is structured as follows:

Chapter 2 gives an overview of facts and figures on sustainability reporting, including the main actors and their role, the role of sustainability reporting in the socio-economic context, the numbers of sustainability reports produced and major trends in sustainability reporting. Chapter 3 provides an overview of the stimuli for sustainability

¹ For example Corporate Register has defined ten different subtypes of sustainability reports, which are all included into the concept of sustainability reporting used in this study: "Environment in general", "Environment & Health & Safety", "Environment & Social", "Environment & Health & Safety & Community", "Corporate Social Responsibility", "Sustainability", "Integrated", "Social and Community", "Environment & Social & Governance" "Other". Variations that GRI encounters are: CR Report, Sustainability Development Report, Corporate Responsibility Report, Sustainability Review, Corporate Citizen Report, Activity and Sustainable Development Report, Report to (Shareholders &) Society, Environmental and Social Report, CSR & Sustainability Report, Annual Report and Accounts etc.etc.

reporting, the voluntary initiatives and instruments that influence the content, quality and the number of reports. Schemes for reporting, awards and rankings may contribute to the uptake and improvement of sustainability reporting. A complete overview of reporting schemes is included in Appendix C. Chapter 4 provides an overview of public policy instruments in the EU and in Member States. Five country case studies (of which factsheets with instruments are included in Appendix D) provide information for an analysis of the policy instruments used by governments to create an enabling environment for voluntary and mandatory reporting on sustainability information. Chapter 5 discusses the companies' motivations for reporting, the obstacles companies face when reporting and their perspectives on the major trends in sustainability reporting. Where relevant, the differences between MNEs and SMEs are indicated. Chapter 6 provides a similar overview from the perspective of the readers of sustainability reports. Their motivations for reading are presented, as well as their expectations from the reports, their use of the reports and their views on the major trends in sustainability reporting. To some extent, the needs and perspectives of the defined reader groups are presented separately here. In Chapter 7 the extent to which views on reporting and current reporting practices of reporting companies match with reader groups is briefly presented. Also some of the challenges for reporting companies are presented, using the reporting principles of the GRI as a reference. Each of these chapters ends with the highlights of the information presented: 'in brief'. Finally, Chapter 8 provides the conclusions that can be drawn from the information presented.

An overview of sources of information used can be found in 'Bibliography'.

2 State of Play in Sustainability Reporting

2.1 Introduction

This Chapter provides an overview of the state of play in reporting in the EU through facts, figures, trends, the most important actors within sustainability reporting and the role sustainability reporting plays in the socio-economic context. The latter is important to understand the trends and dilemma's stakeholders face in the discussion on and use of sustainability reports, for readers as well as reporting companies.

In Paragraph 2.2 the role of sustainability reporting in the socio-economic context is discussed. In Paragraph 2.3, after presenting the most important actors within sustainability reporting, the facts and figures on sustainability reports, reporting companies and the readers of reports, in Europe as well as worldwide will be presented. This is followed in Paragraph 2.4 by the major trends in (the debate on) sustainability reporting. Where relevant and possible distinctions are made between MNEs and SMEs. SMEs have been identified as an important company group for CSR in general (UNEP and Sustainability 1998). More than half of the 5,000 corporate members of the UN Global Compact are SMEs (UNGC 2009: 8) and SMEs may face different challenges in sustainability reporting.

2.2 The Role of Sustainability Reporting in the Socio-economic Context

Ten years ago sustainability reporting was already described as "a tool to spur corporate policies, strategies and management systems, geared to minimising adverse environmental impacts" (UNEP and Sustainability 1998: 5). Reporting on CSR or sustainability information is thought to be one of the most important factors in making CSR a central management topic for a company. Data on the number of reports show that corporate reporting on environmental, social and governance (ESG) issues has increased substantially over the last two decades. Recent surveys on sustainability reporting identify sustainability reporting for large and multinational companies as "the norm, rather than the exception" (KPMG 2008: 4; WestLB 2007: 7). Companies may have very different reasons to publish a sustainability report. According to a study carried out by KPMG in 2010, readers have indicated the following main reasons for companies to report on their sustainability performance:

- Comply with regulations.
- Account for sustainability performance and activities.
- Improve internal processes to enhance sustainability performance.
- Promote achievements in sustainability to stakeholders.
- Engage with stakeholders about sustainability performance or to meet their expectations.
- Demonstrate management of sustainability performance.

- Avoid reputation risks from not reporting.

These reasons are in line with the results of the interviews held within the framework of this study. More information on the motivation of companies to report is presented in Chapter 5.

Call for transparency

Over the past couple of years some scandals in the financial and accounting world have spurred the discussion on transparency. In business practice in general there is a call for companies to be transparent and open about their strategies, activities and management with regard to ESG issues, as an addition to the financial information they already provide in annual reports. Companies are asked to do more than just look for a maximum return. This can be illustrated by a discussion on pension funds during one of the EU Workshops on Disclosure of ESG Information. Trade unions, representing employees, argued that it is difficult to find out in what companies pension funds invest. More transparency would enable them to influence pension funds to invest in a more sustainable way.

Many initiatives have already been taken in the context of transparency and the call for openness by business. Over the last couple of years there has been an increase in the number and variety of external ratings, rankings and indices that seek to measure corporate sustainability performance and provide information to stakeholders on the performance of companies. Different stakeholders are increasingly relying on these ratings to help inform their decisions (to invest, purchase, work etc.). Moreover, companies themselves rely on such ratings to gauge and validate their sustainability efforts, with some even linking management performance evaluation and compensation to external ratings (SustainAbility 2010). International sustainability ratings are for example related to stock exchanges like the Dow Jones Sustainability Indexes² (launched in 1999) and the FTSE4Good Index Series³ (Financial Times Stock Exchange Index) on the London Stock Exchange. Other (international and national) ratings relevant to CSR performance are for example the Carbon Disclosure Project (see Chapter 3), the Accountability Rating and its successor the Tomorrow's Value Rating⁴, the ratings by CSR-rating agency Vigeo⁵, the company and country

² The Dow Jones Sustainability Indexes are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. Based on the cooperation of Dow Jones Indexes and SAM they provide asset managers with reliable and objective benchmarks to manage sustainability portfolios. For more information visit: http://www.sustainability-index.com/07_html/data/djsiworld.html

³ FTSE4Good is a financial index series that is created by the independent financial index company the FTSE Group. The index series is designed to identify and facilitate investment in companies that meet globally recognized corporate responsibility standards. The FTSE Group states that companies in the index series are doing more to manage their social, ethical and environmental impacts and are better positioned to capitalize on the benefits of responsible business practice. For more information visit: http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp

⁴ The Accountability Rating measures the extent to which companies put responsible practices at the heart of their business. The successor to the Accountability Rating is the Tomorrow's Value Rating. It assesses the areas of corporate sustainability performance that still have much scope for improvement among the

rating by Oekom Research⁶ and the Dutch Transparency Benchmark⁷. Rating agencies usually use the information from sustainability reports or send their own questionnaires to the companies. All these ratings contribute to the transparency in the activities and strategies of companies. At the same time, these rating agencies use different rating criteria that may not always be clear to the companies. Moreover, it has been argued that these ratings may prevent companies from being completely honest and open (GRI 2010). Overall, the call for transparency and information on sustainability performance is rising and the use of sustainability reporting as a tool to inform stakeholders, including shareholders and investors, is growing in significance.

2.3 Facts and Figures on Sustainability Reporting

2.3.1 Main Actors in Sustainability Reporting

Many different actors are directly or indirectly involved in sustainability reporting. In this report four groups of actors or stakeholders are defined: (1) the reporting companies, (2) the different reader groups that use the reports as a source of information, (3) governments, which may enforce or stimulate the production and quality of sustainability reports by means of various policy instruments, and (4) CSR (reporting) organisations and educational institutions. These four groups are seen as the major actors. Where the role of the companies and readers are rather clear, governments can have several roles: as a reader of reports, as a reporting organisation and as regulator or facilitator of reporting practices by companies. The EU Workshops on Disclosure of ESG Information also identified 'public authorities' as a reader group, with different roles and different purposes to read reports: as owner or investor; as provider of

majority of large companies. The latest rating is the Food and Beverage Sector Rating. For more information visit:

<http://www.accountabilityrating.com/>

⁵ The Vigeo Group, which is supplier of extra-financial analysis, measures companies' performance in the field of Sustainable Development & Social Responsibility to supply this information to Asset Managers. It has two SRI-indexes: the Ethibel Sustainability Indices and the ASPI Index. For more information visit:

<http://www.vigeo.com/csr-rating-agency/>

⁶ Oekom research analyses the world's most important companies and countries in their role as securities issuer. Oekom has a company rating and a country rating. For more information visit:

<http://www.oekom-research.com/index.php?content=ratings-assessments>

⁷ The Dutch government maintains a national "Transparency Benchmark" scheme, which publicly compares and rates sustainability reports of voluntarily participating companies for their relative transparency on a yearly basis. It enables companies and stakeholders to obtain insight in the relative transparency of a report in comparison to those of national and international sectoral peers, and shows companies how they can enhance the scope of their sustainability reporting towards best practice. For more information visit:

http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/reporting-disclosure_swedish-

[presidency/files/nat_laws_and_policy_init/dutch_transparency_benchmark_for_esg_disclosure_en.pdf](http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/reporting-disclosure_swedish-presidency/files/nat_laws_and_policy_init/dutch_transparency_benchmark_for_esg_disclosure_en.pdf); or

www.transparantiebenchmark.nl

financial support (guarantees, loans and subsidies) and as buyer (for green and social public procurement). However, in these roles public authorities still constitute a relatively small reader group. From a reporting perspective, and for this study, the most important role of governments is to create an enabling environment where all relevant actors can play their part, individually and collectively⁸. For this reason, public authorities are not included in the study as a separate group of readers.

The fourth group, the CSR (reporting) organisations and Educational Institutions play a major role, directly or indirectly, in reporting practices by companies and in the debate on sustainability reporting, for example by:

- Providing the reporting frameworks used by companies.
- Reading existing reports, producing papers and leading investigations on reporting, resulting in (useful) feedback for companies.
- Verifying the information provided by companies in their reports (like consultancy firms or accountants).
- Rating companies on their sustainability performance (using the information from the sustainability reports).
- Making data accessible to investors (data analysts); by active participation in (and also initiating) the discussions on sustainability reporting.
- Organising the reporting awards, which, amongst others, stimulate companies to improve their reporting performance.

In the next paragraphs of this Chapter, some facts and figures (when available) of the four main actors will be presented.

2.3.2 Facts and Figures on the Reporting Companies and Companies' Reports

Companies are not a homogeneous group. Reporting companies vary (amongst others) by size, business sector and location. With size being a key company characteristic, which also shows from the many studies on facts and figures on reporting and the dilemmas faced by the reporting companies, in this survey a main distinction is made between Multinational Enterprises (MNEs) and Small and Medium Enterprises (SMEs). Other characteristics, like state-owned versus privately owned companies and business sectors are only covered when this is relevant from a reporting practice perspective.

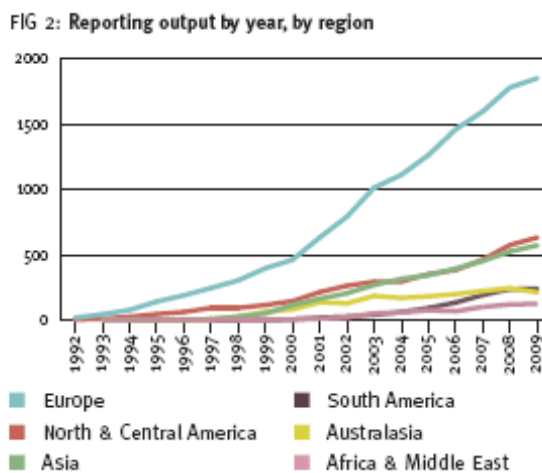
Number of reports

Sustainability reporting has historical roots stretching back several decades. According to the most recent statistics, the global reporting output per year increased from almost zero in 1992 to an expected 4,000 reports in 2010 (CSR 2010: 4). Despite the financial crisis and the following recession the growth rate of sustainability reporting has slowed only marginally during 2009 (ibid: 3). This number of 4,000 reports reflects only the

⁸ Key messages GRI Conference May 2010, Governments Main Hall Session

number of reports from the larger companies that are “officially” registered. It is very likely that there are many more reports being produced, considering for example the use of reports by rating agencies and analysts (registering and using data of many reports each year) and the growing encouragement by governments to produce sustainability reports. Especially reports from smaller companies might be missed by the organisations registering the sustainability reports produced. As stated in one of the EU Workshops on the disclosure of ESG information, SMEs are an important company group for CSR and normally practice sustainability reporting in an “informal manner and often without publishing sustainability reports” (EU Workshop No.1 2009: 2). Other reasons to believe that there are more sustainability reports being produced are given by companies themselves. Many companies start with the process of writing a report, but do not openly discuss or publish the report or find it for example too difficult to continue reporting after the first year (GRI 2010). The real number of reports being prepared in 2010 will therefore exceed the expected 4,000. Although the number of reports is increasing, it should be realised that reporting companies still constitute only a small share of global business with its roughly 82,000 MNEs and many more SMEs (UNCTAD 2009). Europe is the region with the largest reporting output worldwide and the gap to other regions is increasing according to Figure 1. According to Corporate Register, the reporting output in Europe in 2009 consisted of almost 2,000 reports. However, it is not clear on which sources these numbers are based.

Figure 1: Global reporting output in 2009



Source: *Corporate Register 2010: CRR – CSR Reporting Award’10. Global Winners & Reporting Trends*

Some general figures on reporting in Europe show that reporting output in Europe is expected to increase during 2010. Besides the increasing voluntary uptake of companies to start reporting, legislation and regulation are expected to contribute to this growth as well. In Denmark for example, it is now mandatory for the largest

companies to report on CSR in their annual reports, affecting around 1,100 companies⁹. A recent study published in August 2010 shows that 97 per cent of Danish companies provide information about CSR, of which 91 per cent state that they work with CSR. Forty-three per cent published information on CSR for the first time in their 2009 annual reports (Danish Commerce and Company Agency 2010). These first efforts in disclosure on sustainability may in time lead to sustainability reports.

Use of reporting schemes

Furthermore, a growing number of companies use a standardized scheme (framework or guidelines) for reporting. The two most widely used reporting schemes are the G3 Guidelines of the Global Reporting Initiative (GRI)¹⁰ and the United Nations Global Compact Communication on Progress (UNGC COP). GRI is especially used by large companies (G250/N100) and had 1,400 reports published in 2009 globally, of which more than 600 in Europe¹¹. The UNGC COP is a reporting scheme which was developed to enable Global Compact participants to demonstrate their commitment to the Global Compact and its principles. Currently the GC has more than 6,000 business participants (companies and SMEs) worldwide and around 2,600 in Europe, which all have to publish an annual COP¹². These figures indicate that, in 2009, many more reports were produced than the 4,000 that were published globally and the 2,000 reports in Europe (as mentioned by Corporate Register 2010). However, it should be realised that the UNGC COP may vary from a two-page statement on the 10 Global Compact Principles¹³ – disclosure at basic level – to a real stand-alone (or maybe even integrated in the annual report) sustainability report – reporting at intermediate and advanced level. The annual UNGC COP can also be produced by using GRI Guidelines (level C template), in which case the report might be registered twice: as a

⁹ As explained in Chapter 1, with the uptake of sustainability reporting in annual reports due to legislation, the report does not automatically turn into a sustainability report, but might evolve towards such a report over time.

¹⁰ The G3 Guidelines refer to the “third generation” of the GRI Guidelines, published in 2006 (see also Chapter 3)

¹¹ The real number of GRI reports may differ because the list only includes GRI reports that GRI is currently aware of. In particular reports in non-Latin scripts and reports that are not published online may not be listed. Reports based on the GRI Guidelines without a GRI Content Index are not included. Moreover, not all GRI reporters publish reports on an annual basis. Therefore, the total number of GRI reports per publication year does not necessarily correspond with the total number of GRI reporters.

¹² Not all companies with a UNGC membership succeed in publishing a COP on time: currently around 25 per cent has failed to publish their most recent COP before their deadline (derived from UNGC online data bank).

¹³ The 10 UN Global Compact Principles lie in the areas of human rights, labour, the environment and anti-corruption, enjoy universal consensus and are derived from: The Universal Declaration of Human Rights; The International Labour Organisation's Declaration on Fundamental Principles and Rights at Work; The Rio Declaration on Environment and Development; and The United Nations Convention Against Corruption. For more information visit: <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>.

UNGC COP and as a GRI report. For more specific information on (the use of) GRI and UNGC COP (and other reporting schemes) see also Chapter 3 and Appendix C.

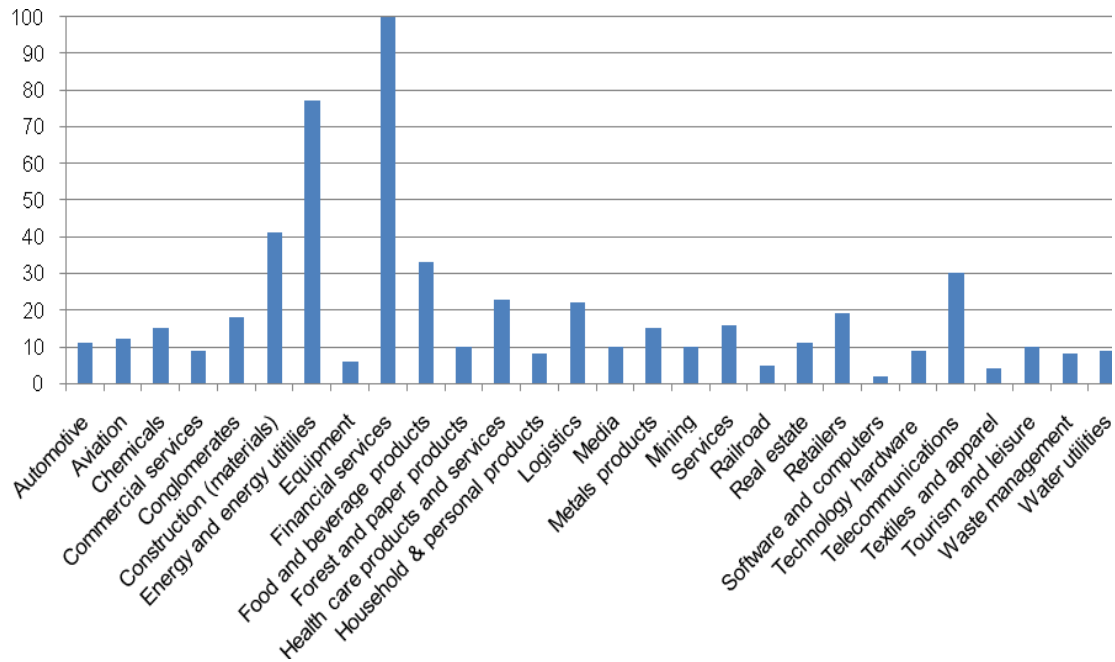
Reporting in different sectors

With regard to differences among sectors, in general, it can be stated that in the last decade, the most polluting companies traditionally have been most active in sustainability reporting (Kolk 2010). In global industries, with relatively small number of large firms, competitors closely watch one another, and ‘follow the leader’ (ibid). More specific research among the G250 on reporting and verification, indicates the following sector dynamics, considering the firm patterns: (ibid)

- Reporting has become common in the automotive industry, but verification has not, just until recently.
- In the oil and gas industry, reporting as well as verification is rather common.
- Companies in utilities are less internationalised, but, since 2002 reporting has become common. Verification has only become common by European firms in this sector.
- Companies in the chemical and pharmaceutical industry started reporting very early, already before 1998; verification is being done by European firms, not by US firms.
- Reporting is prevalent in electronics/computers. The late adopters in this sector come from Asia.
- In banking, reporting took off relatively late (large number of late adopters). Especially some banks from the Netherlands and the United Kingdom adopted verification later than reporting.

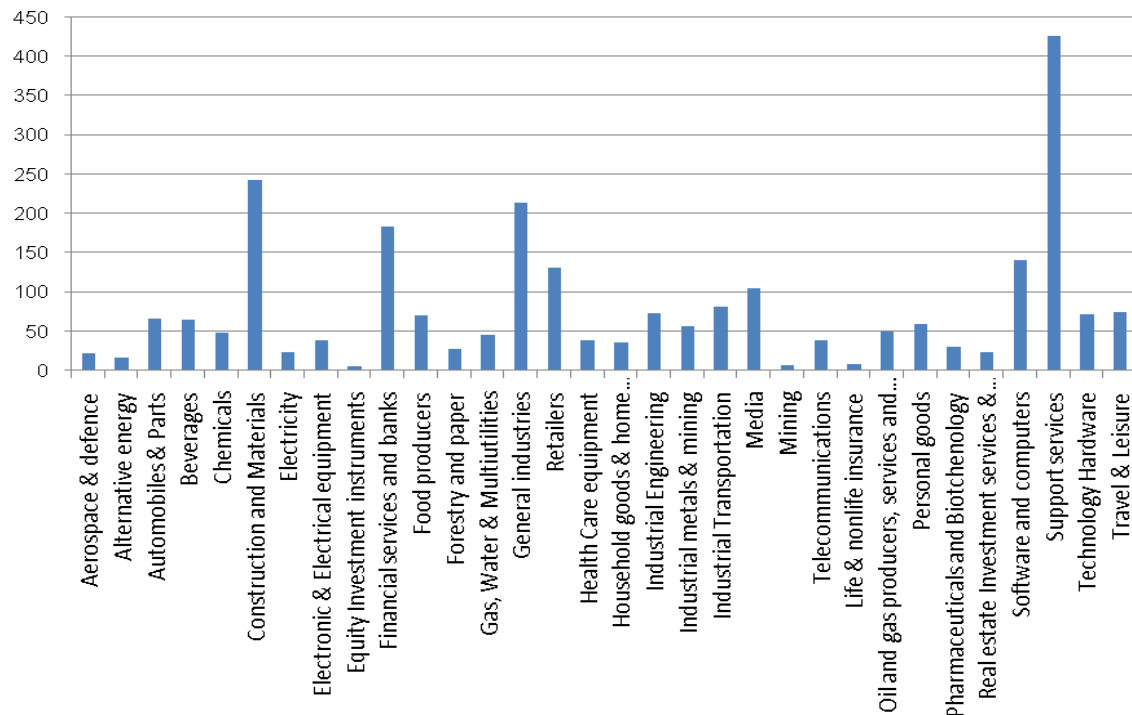
The data of GRI and UN Global Compact show that the highest reporting figures are to be found in the sectors financial and/or supporting services, construction and energy, although these figures are not corrected for the total number of companies per sector. See Figure 2 for the numbers of companies in specific sectors reporting according to GRI and Figure 3 for the numbers of UNGC business participants in specific sectors (and expected to publish a UNGC COP), at the time of writing.

Figure 2: Number of companies reporting according to GRI per sector in 2009



Source: <http://www.globalreporting.org/ReportServices/GRIReportsList/>

Figure 3: Number of UNGC business participants per sector



Source: <http://www.unglobalcompact.org/participants/search>

The view of the reporting companies on sustainability reporting will be discussed in more detail in Chapter 5.

2.3.3 Facts and Figures on the Readers of Sustainability Reports

Reader groups

According to the 2008 KPMG and SustainAbility study on the readers' perspective on sustainability reporting, readers agree to a large extent on what a quality report should look like and they are all primarily concerned with using sustainability reports to further their understanding of the sustainability issues faced by a reporting organisation (KPMG and SustainAbility 2008: 26). This 2008 study and other studies that have been conducted on the perspective of readers also show that readers differ in motivation, behaviour and preferences with regard to reading sustainability reports. For this reason, readers are often categorised according to (for example) their role in society or to their motivations for reading sustainability reports. In practice categorisation of readers is done in different ways (major surveys by KPMG and SustainAbility¹⁴ in 2008 and 2010, and by Edelman¹⁵ in 2008). Based on the different studies and in line with the defined reader groups in the EU Workshops on Disclosure of ESG Information, in this study three major reader groups are identified and discussed: (1) Investors; (2) Civil Society (NGOs, media and journalists) and (3) Trade Unions and Employees. This categorisation will help to understand reader groups' behaviour and preferences and

¹⁴ The KPMG and Sustainability survey based on the GRI Readers' Choice Awards 2008, which was completed by almost 2,300 readers and non-readers (450), identified three large categories: (1) *Business readers*; comprising small, medium and large companies, which are sometimes the same as the reporters or they have a business relationship with reporters: customers, peers and competitors; (2) *Civil Society*, including NGO and Labour organisation readers, which are active stakeholders of the company whose reports they read: advisors, reformers and (consumer) educators, but also active shareholders; (3) *Other*, including investors, consultancy; research/academic; individuals (KPMG and SustainAbility 2008). In the recent survey of 2010, based on the 2010 GRI Readers' Choice Awards, four reader groups were identified: investors, civil society, business readers and others. This shift in categorizing reader groups could be explained by the fact that investors have become an important group of stakeholders, which is also reflected by the intensifying debate on integrated reporting.

¹⁵ Edelman refers in his "Trust Barometer" (as building trust would be the major objective of reports) to "Trust holders" being more sophisticated CR stakeholders, such as CR academics, economists, politicians and government representatives, top SRI analysts, high-profile NGOs, and members of the activist community. Each comes with his or her own style and ability, varying greatly from country to country according to biases in industry sectors and local trust profiles. According to Edelman employees and the socially responsible investment (SRI) community have emerged as key CR communications audiences. Both have a direct impact on a company's bottom line, but these two groups have very different needs and interests. Data collection from the 2007 Edelman Trust Barometer, the 2007 Net Impact Membership Survey (3,100 individuals from all over the world and in-depth one-on-one interviews). In this survey, Edelman and its research partners — Boston College Centre for Corporate Citizenship, Net Impact and the World Business Council for Sustainable Development (WBCSD) — assessed current CR communications trends in a broader sense. They didn't confine their survey to CR reporting, but investigated the full range of CR communications (Edelman et al. 2008).

enables comparison with companies' reporting performance (including their ability to target the right reader groups).

Use of sustainability reports

The number of people using sustainability reports to gain data on organisations is growing. As people are more and more aware of sustainability issues, reports on sustainability issues have become one of the key ways of communication with companies (KPMG 2008:1). At the same time, mainstream media are still seen as the most important source of information on companies, followed by corporate websites and third party sources, like NGOs and non-profit organisations (Edelman et al. 2008: 13). According to Corporate Register, the activity from users in South America and Africa is marginal, although reporting in these regions is increasing (CorporateRegister.com 2009: 4). The figures of respondents to the GRI surveys of 2008 and 2010 show a geographical shift as well as an increase in survey responses. To the 2008 readers survey nearly 2,300 readers responded (GRI 2010-2). The majority of these respondents originated from Europe, with over 1,000 of these from Western Europe. The conclusion of the researches of this GRI survey was that considering the development and acceleration of sustainability reporting in Europe in the past 15 years, this was not a surprising result (KPMG and Sustainability 2008: 6). And in line with the findings of Corporate Register, they saw in the number of completed surveys from Latin America, with over 350 from Brazil, a demonstration of an increasing interest in sustainability reporting in this region (ibid). In 2010 this trend became even more obvious: of the 5,227 readers that took part in the 2010 survey 70 per cent were from Brazil (also India and the USA showed relatively high numbers of response)(GRI 2010-2). Especially Brazil shows the growing interest of companies and stakeholders in CSR and sustainability reporting. Brazilian companies have been campaigning about their reports very actively in recent years and they seem to take stakeholder engagement very seriously (GRI 2010-3). The large number of Brazilians responding to the 2010 readers survey may be the result of that campaigning.

The readers' perspective on sustainability reporting is discussed in more detail in Chapter 6.

2.3.4 Facts and Figures on Governmental Policies for Sustainability Reporting

As stated in Paragraph 2.3.1, the main role of governments or public authorities is to create an enabling environment for reporting. The use of public policy instruments plays an important role in this. More information about the role of governments and these policy instruments is presented in the Chapter 4.

2.3.5 Facts and Figures on CSR (Reporting) Organisations

CSR reporting organisations are the driving force behind the many initiatives to, for example, create frameworks or guidance for reporting and the external assurance of

sustainability reports. Many of these organisations are to be found in the early adopting and most active reporting countries like the United Kingdom and the Netherlands. As these organisations take part in international discussions on sustainability reporting, read sustainability reports, discuss reporting practices with both reporting companies and reader groups, these organisations can be seen as reporting experts. The CSR reporting organisations are not further discussed, as these companies and organisations are too diverse to be discussed in more detail. However, organisations which are active on specific (reporting) topics covered in this study will explicitly be mentioned. Moreover, some of these reporting experts are involved in this study, through the EU Workshops on Disclosure of ESG Information and as part of the Steering Committee. Yet another group of organisations that is directly relevant from the viewpoint of reporting practices is the group of companies that provides the data for the reports, for example by offering computer-based programmes to extract data and make these accessible for the reporting companies. As with the CSR experts, this heterogeneous group is not discussed in detail.

2.4 Trends in Sustainability Reporting

2.4.1 A Growing Use of Online Reporting and Web-based Applications

The use of innovative reporting formats, multi-media features, interactive dialogue formats and customized information for different stakeholder groups is growing. Online reporting is a trend and almost all companies already use some kind of online disclosure (CSR Europe 2009), complementing the information from the hard-copy sustainability report. The hard-copy sustainability report and its subsequent PDF format version is still the most common way of reporting: in 2007 81 per cent of a total of 2,500 sustainability reports analysed were printed (Corporate Register 2007). A benchmark study of Canadian Business for Social Responsibility showed that from 100 sustainability reports, more than 70 per cent linked to the website, which in more than 90 per cent of the cases contained additional information to the printed or PDF-version of the report (Canadian Business for Social Responsibility 2008).

Web-based applications and techniques are growing in use and interest. One of these techniques is the XBRL (eXtensible Business Reporting Language)¹⁶ taxonomy. XBRL is a freely available, market-driven, open and global standard for exchanging business information. It is a language for the electronic (online) communication of business and financial data (XBRL International 2010). XBRL offers a way to put an electronic “tag” on numbers or other qualitative information in the (sustainability) report. That way, computers can recognize the information, and select, analyze, store, and exchange it with other computers and present it automatically in different ways (GRI Portal – Financial Markets & XBRL 2010). As such it helps companies to improve communications with investors and other stakeholders about business strategy and performance. The Global Reporting Initiative is actively working with the developments

¹⁶ For more information visit <http://www.xbrl.org/WhatIsXBRL/>

of XBRL in its work with the investor community (ibid). But also many (financial institutions of) European governments are taking up projects on the use of XBRL collect information from those companies they regulate (XBRL International 2010).

2.4.2 A Growing Use of (External) Assurance

Research showed that generally companies either choose to include formal assurance or to use informal feedback from stakeholders for their assurance process. Among the 250 largest global companies (G250) of the Global Fortune 500, formal assurance of reports increased from 30 per cent to 40 per cent between 2005 and 2008 (KPMG 2008: 5). The most widely used assurance standards are ISAE3000¹⁷ and AA1000AS¹⁸ (ibid: 65). The feedback from stakeholders normally consists of informal commentary processes through which the different stakeholder groups provide feedback on materiality and relevance of the report. This type of assurance is used by 28 per cent of the G250 companies (ibid). Regional differences in assurance of sustainability reports appear to be high. In 2008, only three per cent of reporting companies in the US assured their reports independently, compared to 45 per cent in Europe (Brown 2008:4).

Among European countries, assurance is growing in those Member States where the debate on sustainability reporting has already matured; especially France and Spain show a strong increase in assurance of reports over the last few years (KPMG 2008: 60). The recent change in legislation in Sweden, towards mandatory reporting for all state-owned companies including assurance, is expected to further advance the concept of formal assurance in sustainability reporting (ibid).

2.4.3 A Growing Engagement of Stakeholders

With the growing awareness of the importance of stakeholder engagement, there is a general shift from traditional reporting structures and channels (“one-way communication”; companies just publishing a report without engaging with stakeholders) towards more stakeholder dialogue and other effective means of communication (“two-way communication”). Since 2005 the number of G250 companies engaging stakeholders in a formal way doubled to 62 per cent. Twenty five per cent of companies use the stakeholder feedback as an input for their sustainability reports, which shows that there is still room for improvement, since non-integration of

¹⁷ International Standard on Assurance Engagements (ISAE 100) was designed to provide a basic framework for large scale audits concerned with non-financial data process monitoring., the full text can be downloaded at http://www.accountability21.net/uploadedFiles/Issues/ISAE_3000.pdf.

¹⁸ AA1000AS (2008) assurance provides a comprehensive way of holding an organisation to account for its management, performance and reporting on sustainability issues by evaluating the adherence of an organisation to the AccountAbility Principles and the reliability of associated performance information. For further information see: <http://www.accountability.org/aa1000as>.

stakeholders means that the company risks leaving out key issues when elaborating the content of its sustainability report (KPMG 2008: 31).

2.4.4 A Growing Use of and Debate on Integrated Reports

During the last 20 years, corporate non-financial reporting has developed from predominately single-issue reports (mostly focussing on the environment) to multi-issue reports or sustainability reports. The single-issue reports sometimes already covered different topics such as community engagement, ethics, and supply chain management, but only sustainability reports also reflect the economic and socio-economic aspects of the reporting company (CSR 2010: 5). Currently, this trend towards multi-issue reporting goes further towards 'integrated reporting', which means sustainability reporting integrated within the financial or annual report. Especially in the debate on the future of sustainability reporting this is one of the major topics. Statistically the trend is not visible yet, given the low numbers of integrated reports so far, and the fact that the debate on integrated reporting is still young (CSR 2010: 5). While nearly 80 per cent of the G250 issued sustainability reports in 2008, only an additional four per cent integrated their sustainability or non-financial reporting into their annual reports. According to Corporate Register, less than a total of 200 integrated reports have been published in 2009 (ibid). On the other hand, nearly half of all G250 companies that issue stand-alone reports, additionally reference important information on non-financial issues in their annual financial reporting (KPMG 2008: 17), illustrating a possible shift towards integrated reporting.

The debate on integrated reporting is being fed by a number of initiatives by CSR (reporting) organisations, to some extent related to the call for standardizing reporting schemes (Chapter 3). The most recent initiative in this field is the formation of the International Integrated Reporting Committee (IIRC), which was announced by the Prince's Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI) on 2 August 2010. The IIRC is comprised of investors, standards setters, companies, accounting bodies, UN representatives, and members of civil society and will seek to create a global framework for integrated reporting. The IIRC is a global collaboration that includes the IFAC (International Federation of Accountants), the Prince's Accounting for Sustainability Project and the GRI among many other organisations. The aim is "to create a globally accepted 'integrated' framework for accounting for sustainability: a framework that brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format" (IIRC 2010). The IIRC is also supported by the recently created South African Integrated Reporting Committee, which issues guidelines on good practice in integrated reporting to promote the international harmonisation of guidelines on integrated reporting (ibid) (see also Paragraph 4.4.5 on public policy instruments in South Africa).

An important contribution to the debate on integrated reporting has been provided by the Laboratory on "Corporate Responsibility and Market Valuation of Financial and Non-financial Performance" The Laboratory was convened under the umbrella of the

European Commission-sponsored European Alliance for CSR in 2006. The Laboratory is a compact of companies and stakeholder organisations chaired by Telecom Italia and Lloyds Banking Group, and facilitated by CSR Europe. The Laboratory is supported by a parallel research project of leading European business schools funded by the European Academy of Business in Society. Its focus is the relationship between companies and investors, developing a framework for company and investor dialogue, which can contribute to allowing investors and other stakeholders of enterprises, who wish to measure and communicate their non-financial performance, to use such information in their decision making processes (CSR Europe 2008). For more information on this Laboratory see Box 1.

2.4.5 A Growing Use and Application of Stimuli and Public Policy Instruments

The use of “stimuli” or initiatives that stimulate sustainability reporting is growing, contributing to the uptake of reporting by companies as well as to the quality of reports and reporting performance. In Chapter 3, the use of awards, rankings and reporting schemes is presented in more detail. In Chapter 4, the public policy instruments enforced by governments are discussed.

2.5 In Brief

Companies use a wide variety of communication instruments, tools and channels to reach the respective audiences of their sustainability reporting (Edelman et al. 2008: 24). Reporting is growing in numbers, but still quite limited compared to the total number of companies. There is a growing use of reporting schemes like the GRI Guidelines and of web-based communication tools. In the debate on the future of reporting, integrated reporting is one of the major topics.

Box 1: Laboratory on Corporate Responsibility and Market Valuation of Financial and Non-financial Performance

Since the 1990's an emerging trend in sustainability integration in the investment community and business has become visible. However, for investors many obstacles are still present to mainstream sustainability issues in investment decisions (European Alliance for CSR 2009: 5):

- Investors mindsets, decision techniques and investment time horizons: quantitative analysis and short-termism in investment decisions regarding financial data versus qualitative analysis and long term investment decisions regarding ESG data.
- Investors perceptions of ESG issues: complexity and uncertainty; understanding the boundaries of ESG, what is in, what is out, and the developments in ESG issues over time.
- Lack of evidence for or understanding of the potential linkages.
- Limited or non-existent data, especially regarding data which would be comparable across companies.
- Confusion of terminology and shifting definitions (ESG, non-financial performance, CR, sustainability etc.).
- Few incentives to change.
- Companies having a perceived lack of investor interest and lack of actual performance data.

The framework is an emerging set of principles and recommendations for implementation. Recommendations to companies, investors, and other stakeholders, including the European Commission, are published in the final report published in May 2010 (CSR Europe 2010). The Laboratory also joined the European Combined Reporting Alliance for ESG, (an alliance of economic and capital markets stakeholders) to help improve the outcome from the series of EU Workshops on the Disclosure of ESG Information. The ideas of company value and of connected or combined reporting, which are material and strategic, are the focus of a vision for sustainability disclosure. Broadly, the Alliance participants favour a combined approach to corporate reporting as one of the levers to embed non-financial performance in corporate strategy and management practices. It sees a regulatory approach to sustainability disclosure and reporting at the European level as necessary to avoid the risk of different regimes applying across EU member states under the EU's Modernisation Directive with consequent transactional costs for business, as there are already Member States such as France, Sweden, Denmark and the Netherlands adopting different approaches (CSR Europe 2010). This Alliance believes that there is no current sustainability reporting framework that fully meets the needs of companies and investors. It sees a need to unite the efforts of the European initiatives on ESG disclosure and reporting, and to support the efforts of the International Integrated Reporting Committee (IIRC). Although developing a common set of indicators is not the whole answer, improving standardisation and therefore comparability for core metrics is a fundamental enabler for sustainability factors to be taken into account in investor decision-making. To this end, according to the Alliance, any generally accepted framework should distinguish between two sets of sustainability indicators: Key Performance Indicators, which demonstrate the contribution of non-financial performance to a company's financial performance and value creation; and social indicators reflecting civil society's expectations of business (ibid). The Laboratory views the objectives of the Alliance to be fully consistent with its findings and recommendations (ibid).

In spring 2010 this first phase of the Laboratory – the development of the framework – was finished. Now, the Laboratory is building on this first phase in the second phase, which aims to define the material non-financial performance factors and help companies to identify:

- 1) The significance of ESG factors within their businesses.
- 2) How practically to use the framework developed in the phase 1 Laboratory.
- 3) How existing management models and tools can assist with management and measurement, and ultimately with internal/external communication with relevant stakeholders.

Planned output is:

- 1) The establishment of common core KPIs.
- 2) The development of management tools and approaches where relevant.
- 3) Communication of best practices and company case studies.
- 4) A "how-to" guide.
- 5) Policy recommendations.

Progress of the second phase can be viewed at <http://www.eabis.org/projects/project-detail-view.html?uid=19>

3 State of Play in Stimuli for Sustainability Reporting

3.1 Introduction

This Chapter looks into the stimuli for sustainability reporting: voluntary and stimulating initiatives developed by independent CSR (reporting) organisations, including awards, ratings and reporting schemes (standards, frameworks, guidelines etc.), which may all contribute to the adoption of sustainability reporting and to a higher quality of reporting.

Paragraph 3.2 presents an overview of the most important and well-known awards, rankings and schemes. Where information is available, the type and the focus of the stimulus are given, including the actors involved. Furthermore, recently developed or new initiatives and trends within the use of stimuli are briefly presented. In Paragraph 3.3, the effectiveness of the stimuli is discussed. Since no particular studies on the effectiveness of stimuli have been conducted, the information is derived from other literature and the interviews conducted in this study.

3.2 State of Play in Stimuli

3.2.1 Awards and Rankings

To foster sustainability reporting a number of awards and rankings by different organisations have been created. However, there are no uniform criteria for sustainability reporting awards and there is no standardized ranking for sustainability reports. This complicates a comparison of the different awards and ratings.

3.2.1.1 Awards

The two most important awards (in numbers) are the Corporate Register Reporting Awards (CRRRA) and the GRI Readers' Choice Awards (GRI Awards). Both have defined different criteria for good reporting practice and rankings are based on broad stakeholder involvement, i.e. readers from various backgrounds vote on companies' reporting performance. The CRRRA are an annual sustainability reporting competition for companies worldwide. Corporate Register is the world's biggest repository of sustainability reports and has over 30,000 stakeholders registered. The most recent CRRRA¹⁹ were held between September 2009 and April 2010 (CRRRA '10) and were open to reports issued from September 2008 to September 2009 (here and thereafter CSR 2010: 9-12). One hundred and thirty companies participated in nine award categories, namely: "Best Report", "Best First Time Report", "Best SME Report", "Best Integrated Report", "Best Carbon Disclosure", "Creativity in Communications", "Relevance & Materiality", "Openness & Honesty", and "Credibility through Assurance". Nearly 7,000 valid votes were counted, with over 80 per cent coming from CSR

¹⁹ For further information visit: <http://www.corporateregister.com/crra/>

professionals, support services, students and CSR consultants. For the winners of these CRRRA awards (and originating country) see Table 1 in Appendix B.

The second biggest sustainability reporting competition is the GRI Readers' Choice Awards²⁰, where the winners are also chosen (partly) by readers. The purpose of the GRI Awards and survey is to identify the readers and what they expect and want from sustainability reports. In 2008, the first GRI Awards were being held. Eight hundred reports from 50 countries and 25 sectors entered the competition and 1,725 people (valid scores) from 70 countries participated, casting 5,650 scores for these reports (GRI 2008). Readers had to score sustainability reports following five criteria, namely "Stakeholder inclusiveness", "Materiality", "Sustainability context", "Completeness" and "Quality". For the category 'Reader group awards' these votes were analyzed following the different reader groups, granting awards to: the "Best Report, (as judged by) all stakeholder groups", the "Best report, media", the "Best report, financial markets", the "Best report, civil society" and the "Best report, employees". In the category 'Special awards' awards were granted to: the "Best report, Non-Business Organisation", the "Best report, Not-so-big Business" and the "Best report, Non-OECD country"²¹. In conjunction with the awards, a readers' survey²² was conducted to which nearly 2,279, mainly European, readers responded in total (GRI 2010-2). For the winners of the GRI Awards 2008, see Table 2 in Appendix B.

In 2009, the rules were slightly changed. In the GRI Readers' Choice Awards 2010, awards have been granted in the following categories: "Engage", "Civil society", "Investors", "Value chain", "Most effective" and "Readers' choice". Of the 5,227 readers that took part in the survey, exceptionally large numbers were from Brazil, India and the USA (giving evidence to a geographical shift and increase in survey responses) (ibid). The investor Award category was new in 2010 because there is a large interest from the financial markets in GRI reporting, although the investors group, being new, still appeared to be a small reader group (ibid). Furthermore, the comparison of the objectives of companies with the opinions and expectations of the readers was also new in 2010. The company that did the best job in matching criteria regarding target audiences and objectives for reporting compared with the readers' expectations won the 'most effective report award'. For the winners of all GRI Awards, see Table 3 in Appendix B. With a growing interest of Brazilian companies and stakeholders in sustainability reporting and a large number of Brazilians responding to the survey²³ (GRI 2010-3), all awards were won by Brazilian companies.

²⁰ For further information visit: <http://awards.globalreporting.org>

²¹ For a complete overview visit:

<http://www.globalreporting.org/NewsEventsPress/ReadersChoiceAwards/TheWinners.htm>

²² The report of the GRI Readers' Choice survey was prepared by KPMG and SustainAbility: Count me in – The readers' take on sustainability reporting (KPMG and SustainAbility 2008).

²³ Actually, 70 per cent of the voters was Brazilian. As was already explained in chapter 2, in Brazil there is a large interest in CSR, by companies as well as by stakeholders. Brazilian companies have been campaigning about their reports very actively in recent years and they seem to take stakeholder engagement very seriously (GRI 2010-3).

Apart from these international awards, a number of countries present awards for the best sustainability reports on a regular basis. Examples include the Austrian Sustainability Reporting Awards (ASRA), the Belgium award for the “Best Sustainability Report”, the Finnish competition that has been running for 15 years and includes CSR criteria since 2008, and the Swedish award for the best sustainability report in different categories such as SMEs or Large Companies (ESRA 2010).

3.2.1.2 Rankings

The rankings of sustainability reports measure the quality of sustainability reports following certain criteria. For example, the Global Reporters ranking of SustainAbility, in cooperation with UNEP, has published a biannual survey of sustainability reporting for 15 years, assessing how well major companies across the world disclose information regarding sustainability management and performance. It has been reconfigured in 2008 and is now exploring the reporting aspects of a specific region and of a specific business sector. In its latest version, the performance of Brazilian companies and the financial sector have been rated (SustainAbility 2008). The ranking takes place following four different sections: Governance and Strategy, Management Systems, Presentation of Performance and Accessibility and Assurance. In Germany, the 100 biggest industrial and service companies and the 50 biggest financial service and commerce companies are being ranked (IÖW 2010). The latter is being implemented by independent research organisations with support of the German Ministry of Labour and Social Affairs, and the German Council for Sustainable Development. Since 2009, there has also been a ranking for the best sustainability reports from SMEs, with the aim to make sustainability reporting between German companies comparable, to improve constructive competition between companies and to foster dialogue between different stakeholder groups. The ranking is undertaken by independent research organisations (ibid).

3.2.2 Reporting Schemes

As was recognised in the EU Workshops, with the increased acceptance of sustainability reporting and a growing number of companies reporting on non-financial issues, standardization becomes more important. Reporting schemes (standards, frameworks and/or guidelines) guide companies through the process of reporting, provide structure to the sustainability report, reduce reporting costs, provide readers with some assurance about the report’s quality and make information more comparable between reports (EU Workshop No.1 2009: 4). Companies seek to meet industry benchmarks and guidelines offered by the voluntary initiatives. Moreover, schemes can help companies to start with reporting. In this way, reporting schemes are a driving force for more sustainability reports and a higher quality of reporting.

3.2.2.1 Overview Reporting Schemes Currently Used

First approaches to introduce (reporting) schemes were made in the 1990s. Well-known disclosure schemes for reporting on corporate social and environmental performance are the Carbon Disclosure Project (CDP), the GRI Guidelines and the UN Global Compact Communication on Progress (COP). These schemes are described in more detail in Paragraph 3.3.2. Other schemes focus on assurance practices, like the AA1000AS for assurance practitioners. A major objective of all these schemes is "to bring uniformity and best practice to the format and production of sustainability reports, improving communication so investors and stakeholders may be better informed, and able to carry out comparisons" (Arnold 2008: 13).

Many different types of reporting related schemes have been developed, as the 2008 readers' survey of KPMG and SustainAbility shows: general applicable standards, sector-based reporting frameworks, stakeholder engagement standards, assurance standards, national reporting standards or guidelines (many national initiatives are to be found for example in Denmark and Austria), and company in-house reporting guidelines (KPMG and SustainAbility 2008: 22). Furthermore, in literature and in the debates on sustainability reporting, not only the mere reporting schemes are mentioned, but also other schemes that focus on (C)SR, such as the ISO 26000. However, only a few general standards on sustainability reporting have been developed. Appendix C provides an overview of a number of schemes, divided into four sub-categories and limited to schemes that are internationally applicable (national and in-company initiatives are not included):

- I. **Schemes and guidance for sustainability reporting:** Reporting schemes are defined here as globally accepted and demonstrated standards and guidelines for reporting, used by a substantive number of (international) companies.
- II. **Assurance schemes for sustainability reports.**
- III. **Schemes for sustainability management and performance:** As these schemes do influence reports or give guidance to defining report content, the most important and most frequently used schemes are mentioned here. Moreover, with the ongoing and significant convergence of the major reporting schemes and initiatives, these initiatives are well-worth mentioning. The overview is not exhaustive, as there are many more standards, audits, certification methods or declarations with regard to sustainability management that could give guidance to reporting (like the Fairtrade compliance standards and audits and ILO declarations).
- IV. **Schemes for financial reporting.** In the light of the debate on integrated reporting, and because some initiatives are already related to sustainability reporting schemes, the most frequently used schemes on financial reporting are briefly covered.

Per category the schemes are described in alphabetic order and per scheme a general description is given and the source (website) for more information. Where information is available, the use of the scheme (quantitative if possible, including some examples of companies) and its effect and impact are discussed.

Box 2: Laboratory on Sectoral Sustainability Reporting

In Spain, the financial market is dominated by domestic retail public institutions: Commercial, savings and cooperative banks. Other commercial banks are foreign banks, mainly EU originated. The two major Spanish commercial banks both have a small market share (each 15 per cent or less), showing the low concentration of the Spanish financial market. The savings banks, with branches in all provinces, together have a market share of more than 50 per cent (domestic assets; 2009) (Garcia-Pintos 2010).

The Spanish savings banks have become aware of the importance of non-financial reporting. They are committed to transparency and communication to their interest groups. For five years now, Spanish savings banks have produced their own aggregated sectoral sustainability report along GRI Guidelines. This initiative is internationally considered as a best practice as regards aggregate reporting and has been done in parallel with the reports published by individual savings banks. The *Confederación Española de Cajas de Ahorros* (CECA) has also coordinated the participation of a group of Savings Banks in the review of the GRI Financial Sector Supplement.

The aggregate sectoral report captures the specificities of the CSR Savings Banks' model. CECA, in partnership with 23 of its members, has set up a laboratory, led by Caja Granada and Caja Madrid, in order to identify the material indicators and to develop a template for the streamlining of reporting in line with the new GRI G3 Guidelines. The outcome is a standardised reporting mechanism that will allow the production of the mentioned sectoral report. This will increase stakeholder comprehension and transparency regarding the sector's performance, as well as promote reporting among CECA's members (CSR Europe 2010). With the aim of measuring the results of the savings banks' real activity in various aspects of social responsibility, general and specific indicators have been designed (CECA and The European Alliance for CSR 2007):

- General indicators, in accordance with GRI: social aspects (corporate governance, working environment, market environment and community) and environmental aspects.
- Specific indicators, in accordance with the specific nature of the activities of the Savings Banks: Aspects connected with Social Projects (*Obra Social*):
 - Distribution of profits of Savings Banks to their community investment scheme.
 - Wealth creation: impact of social projects on Spain's GDP.
 - Job creation: direct and indirect employment through the *Obra Social*.
 - Social cohesion, via their proximity banking model and their focus on SMEs and households.
 - Coverage: market share of the Savings Banks and the extent to which they meet the demand for various types of service depending on the target consumer.
- Indicators that integrate aspects connected with financial activities:
 - Financial exclusion (especially important to migrants).
 - Accessibility of financial products.
 - Geographical coverage.

According to CECA, the main value added is that there will be an aggregate report, which allows a sectoral perspective on the Savings Banks relation with society and environment, over and above the collection of individual reports. Other advantages are (Garcia-Pintos 2010):

- It allows disclosure the impact which is only relevant at sectoral level.
- It serves the savings banks as a tool for benchmarking: how do the individual banks perform in relation to each other.
- It will increase stakeholder comprehension.
- It will increase transparency on the sector's performance.
- It will promote reporting among CECA's members.

According to Ms Garcia-Pintos from CECA, difficulties in the process were that "with 23 partners it was hard to align all time schedules and to fine-tune the topics and issues to report on. But when advantages became clear, there was much more support for the process".

GRI and CSR Europe are both involved in this process. The project can be followed at:
http://www.csreurope.org/page/-en/csr_reporting.html

3.2.2.2 Trends and Initiatives around Reporting Schemes

Sectoral Reporting

A trend within the growing use of schemes for reporting is the (growing) interest in standardising sector-specific reporting and the use of sector-specific indicators. As one size does not always fit all, several sectors have trouble using the general indicators or guidelines provided by schemes for reporting. They face unique needs that require specialised guidance, they argue (GRI 2010). Key initiatives for sectoral reporting are set up by GRI. GRI provides 'Sector Supplements' that complement the general Guidelines with interpretations and guidance on how to apply the Guidelines in a certain sector, and include sector-specific Performance Indicators. At this moment, five sector supplements have been finalised, of which two will be obligatory to use for reporters to be recognized as GRI application level A reporter from 1 January 2010: the Financial sector and the Electric Utilities sector. The other Sector Supplements will be obligatory after 31 December 2011: for the Mining and Metals sector, for Food Processing and for NGOs. Sector Supplements that are currently being prepared are Airports (first draft), Apparel & Footwear (under development), Automotive (pilot version), Construction & Real Estate (first draft), Events (under development), Logistics & Transportation (pilot version), Media (under development), Oils & Gas (first draft), Public Agency (pilot version) and Telecommunications (pilot version) (GRI 2010).

A recent initiative in the financial sector is the "Laboratory on Sectoral Sustainability Reporting" of the Spanish Savings Banks and the *Confederación Española de Cajas de Ahorros* (CECA) (see Box 2). They argue that the GRI Financial Supplement does not allow the Spanish Savings Banks to adequately report on the materiality, which is relevant for their business. The Savings Banks will start reporting with their own new framework this year, which allows a sectoral perspective on the savings banks relation with society and environment (Garcia-Pintos 2010).

Support to SMEs

For the reporting support of SMEs worldwide, both GRI and the UN Global Compact are active. GRI provides support to SMEs in two ways:

- 1) In reporting related to the supply chain: through the Global Action Network for Transparency in the Supply Chain (GANTSch) Program. In this program, any MNE interested in building sustainability reporting capacity within SMEs can partner with GRI to facilitate training and follow up coaching specifically for SMEs.
- 2) In general: amongst others by means of the handbook 'Let's Report! Step-by-step guidance to prepare a basic GRI sustainability report'. Furthermore, in 2006 the learning services area was launched, in which GRI researched and collected information on initiatives related to reporting by SMEs. The Global Compact has

globally launched “the Global Compact Differentiation Framework”²⁴ that is expected to benefit SMEs, as it provides a basic reporting framework to easily report for the first time (UNGlobalCompact 2010-2). Furthermore, in 2008 the Spanish Global Compact Local Network²⁵ developed an online tool that allows SMEs to report. With this tool the number of SMEs that reported already increased with 33 per cent after the first year and with 88 per cent in 2010. The Network gives support to the almost 600 SMEs that are part of it²⁶, which has also led to a significant improvement of the reports, even after the first year of reporting (Garro 2010).

Increasing Cooperation

An important trend is the increasing cooperation between the different organisations involved in sustainability reporting. In many cases the various platforms and organisations promoting sustainability reporting have developed partnerships with the Global Reporting Initiative:

- Since 2007, the UN Global Compact has promoted the use of accepted standards of disclosure and transparency such as the GRI for companies providing a COP at intermediate level (UNGlobalCompact 2010-2).
- In June 2010 GRI and UNGC announced a new alliance that allows both initiatives to focus on their respective and complementary strengths, and that will build “a universal framework for corporate sustainability performance and disclosure, aiming to transform business practices on a global scale”. In this alliance, GC will adopt the GRI Guidelines as the recommended reporting framework for companies to communicate on progress made. At the same time, GRI will integrate the 10 principles and issue areas of GC centrally in the next iteration of the Reporting Guidelines (ibid).
- In December 2010, OECD and GRI signed an MoU (Memorandum of Understanding), which establishes a program to promote understanding and use of the two instruments, to exploit their synergies, and to develop cooperation in areas of mutual interest²⁷.
- The AA1000 AccountAbility Principles Standard is promoted as being compatible with the GRI Guidelines (AccountAbility 2010).

²⁴ The Differentiation Framework is explained in more detail in Appendix C.

²⁵ Local networks are clusters of participants advancing the UNGC and its principles within a particular geographic context. Their role is to facilitate the progress of companies (both local firms and subsidiaries of foreign corporations) engaged in the GC with respect to implementation of the 10 principles, while also creating opportunities for multi-stakeholder engagement and collective action (UNGlobalNetwork 2010-5). Together with 22 emerging networks, the Global Compact Local Network system expanded to 92 by the end of 2009, of which 33 European (UN Global Compact 2010-1: 16).

²⁶ Spanish businesses were among the first to embrace the Global Compact’s Principles. The Global Compact Network Spain (ASEPAM) is now one of its largest networks. In January 2009, it celebrated its fifth anniversary (ibid: 12).

²⁷ For more information visit: <http://www.globalreporting.org/AboutGRI/Alliances/OECD.htm>

- Ten governments formally refer to the G3 Guidelines in their governmental corporate responsibility guidance documents and policies (KPMG et al. 2010).
- The Carbon Disclosure Project (CDP) and GRI are working together to enable users to efficiently use or adapt the same data in both reporting processes. For this reason they have published a document explaining the similarities and differences between the GRI Guidelines and CDP's 2010 Questionnaire (CDProject 2010).
- Another recent initiative, which focuses on the development of an integrated reporting framework, is the formation of the International Integrated Reporting Committee (IIRC), which was already discussed in Paragraph 2.4.4.

Harmonisation between reporting schemes and other initiatives in the field of CSR is also increasing. An example is the effort to bridge the GRI Guidelines and ISO 26000 (for more information on ISO 26000 see Appendix C, part IV Schemes for environmental and social management and performance).

3.3 Effectiveness and Impact of Awards, Rankings and Reporting Schemes

3.3.1 Effectiveness of Awards and Rankings

There is no information available on the effect of the rankings and awards on reporting performance, the quality of the sustainability reports and numbers of reports being published. Although there could be a link between the growing number of sustainability reports and the growing number of rankings and awards, further research would have to be conducted to show whether the growing number of reports can (partly) be contributed to the effect of rankings and awards.

3.3.2 Effectiveness of Reporting Schemes

As was already discussed in Paragraph 2.3.6, there is a growing use of reporting schemes. Of the 'single-issue' reporting schemes, the Carbon Disclosure Project has the largest number of users: the number of responding companies grew from 235 in 2003 to 2,456 in 2009. Although GRI is seen as the most popular reporting scheme with a total of almost 1,400 reports in 2009, the UN Global Compact Communication on Progress (UNGC COP) is the world's largest 'corporate citizenship and sustainability initiative' with, at the time of November 2010, more than 7,700 participants in 130 countries, of which over 6,000 business participants in all sectors, being both (large) companies and SMEs. (See Appendix C for more specific information on the reporting schemes and tools.)

3.3.2.1 UNGC COP

Some argue that the UNGC COP is not a mere reporting scheme (such as the GRI). However, the ten UN Principles and the guidelines on how to publish a COP do provide guidance to participants regarding the content of their sustainability reports. All participants have to provide a COP each year as a requirement of membership (UNGlobalCompact 2010-2). This should lead to the same number of COPs published. However, some 25 per cent of the participants have failed to develop a COP by the relevant deadline (UNGlobalCompact 2010-6). Furthermore, as was already mentioned in Chapter 2, the COP may vary from a 'two-pages statement' on the 10 UNGC principles to a real sustainability report (where in many cases the report is called 'sustainability report' instead of 'Communication on Progress'). Moreover, GRI reports may be used as COPs, as the GRI level C template can be used to provide a COP (see also Appendix C, part I no. 2). Because of this the COP has not yet received that much attention in publications on reporting. Another reason for this could be that during the last 5 years the COP policy has changed much. It has not been until recently that the COP has become an important reporting tool for GC signatories (Garro 2010). Countries like Denmark now base their public CSR strategy on the Global Compact and the COP. According to Garro (2010), use of the COP can be seen as a new global trend. For the purpose of this study only the total number of participants of the UNGC (at the time of writing) is provided²⁸. The website of Global Compact does provide links to each participant and the COP that has been published most recently, including the reporting period, the format and (in short) its content. Moreover, it shows all previously published COPs and states when the next COP is due. Experience of the Spanish GC Network with online SME reporting shows that even after the first year of reporting, the reports of SMEs improve significantly. This Local Network realised that SMEs need support from CSR partners, other SMEs and mentors (Garro 2010).

3.3.2.2 GRI

From a study by KPMG in 2008²⁹ on the reporting trends of schemes by G250 and "N100" companies, it appears that around 75 per cent of these companies use the GRI Guidelines. Internally-developed and national reporting schemes are used much less, see Table 1.

²⁸ More extensive research would be required to assess the actual number of COPs produced and published, and the number of GRI reports included in this. This is beyond the scope of this study.

²⁹ KPMG 2008: International Survey of Corporate Responsibility Reporting 2008. In this survey, reporting trends in the world's largest companies were tracked, covering a sample of 2,200 companies including the Global Fortune 250 (G250), the world's largest 250 companies, and the 100 largest companies by revenue (N100) in 22 countries, chosen for the purpose of the survey and including companies from countries of all continents (KPMG 2008).

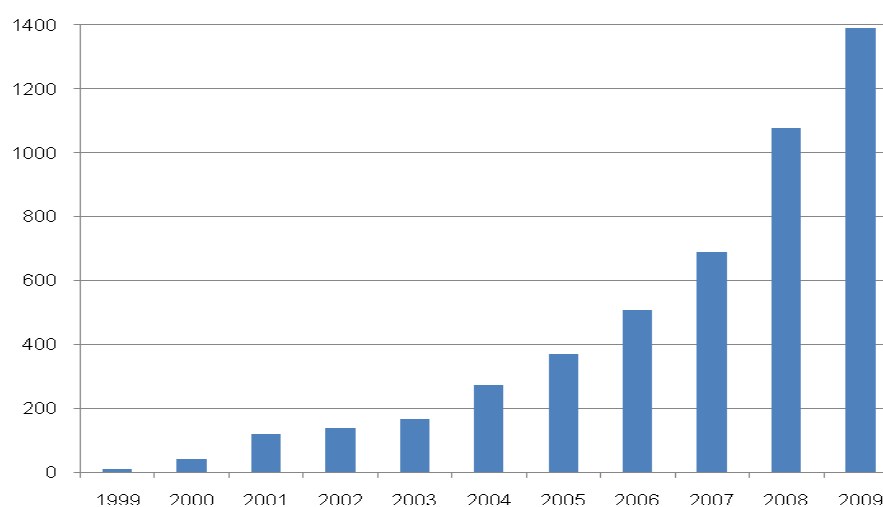
Table 1: Use of reporting schemes by G250 and N100

<i>Type of scheme</i>	<i>G250 (per cent)</i>	<i>N100 (per cent)</i>
GRI Guidelines	77	69
Internally-developed company schemes	20	19
National reporting schemes	19	17
Other schemes	13	13

Source: KPMG 2008: *International Survey of Corporate Responsibility Reporting 2008*

In this study the UNGC COPs were not included. However, as the GRI level C template can be used to provide a COP it is very well possible that part of the GRI reports are a COP as well.

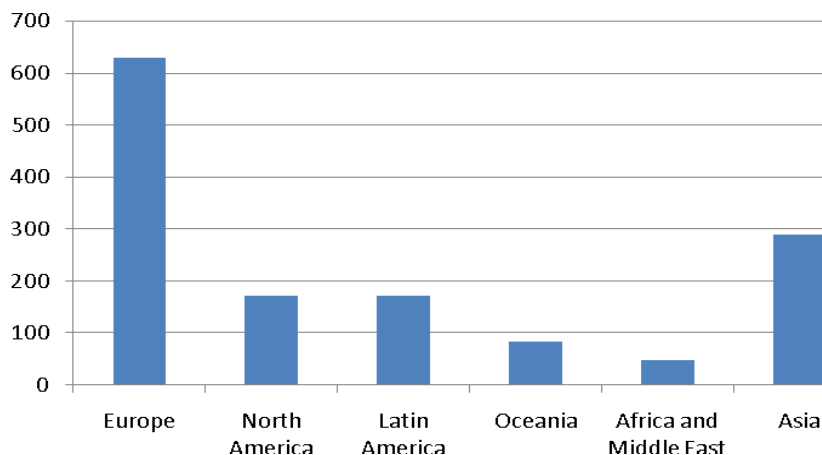
In Figure 4, the growth in the use of GRI Guidelines is shown, reaching a total number of 1,400 reports in 2009 (of a total of 4,000 reports registered in general).

Figure 4: Growth of the use of GRI Guidelines globally

Source: <http://www.globalreporting.org/ReportServices/GRIReportsList/>

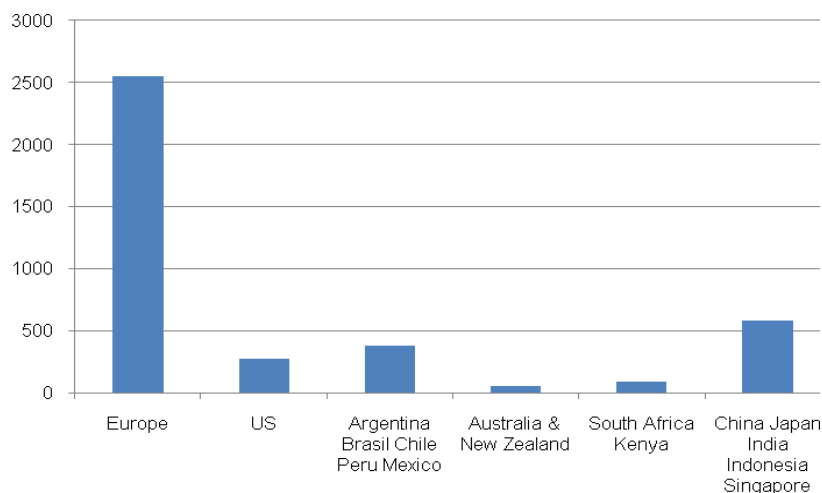
There has been a slight shift in continents as the share of EU companies decreased from 60 per cent in 2005 to 48 per cent nowadays, and companies in Asia and South America are taking up. But in the EU numbers are also rising. The US lags behind in numbers and in share of the market. Figure 5 gives the GRI output per region. For comparison, Figure 6 shows the number of UNGC business participants that have to provide a COP per region (the regions for UNGC do not coincide completely with the regions of GRI, but the numbers are comparable to some extent. Moreover, the numbers of some major countries in the regions that are missing are given).

Figure 5: GRI reports published per region



Source: <http://www.globalreporting.org/ReportServices/GRIReportsList/>

Figure 6. UNGC membership per region



Source: <http://www.unglobalcompact.org/participants/search>

In 2009, a total of 580 ‘GRI’ reports were produced in EU Member States (and 628 in Europe), being nearly 70 per cent of the total number of sustainability reports produced in the Member States. Currently, almost 2,600 European companies, of which 1,400 SMEs, are UNGC participant (this division between SME’s and larger companies is approximately the same in each country). Both initiatives show differences within the EU between eastern and western countries: companies in eastern countries are slower in adopting the GRI and participating in the UN Global Compact, but are increasingly asking for both initiatives. Table 2 shows for 23 European countries the first year in which a GRI report was published and the first year in which a company became a participant of UNGC.

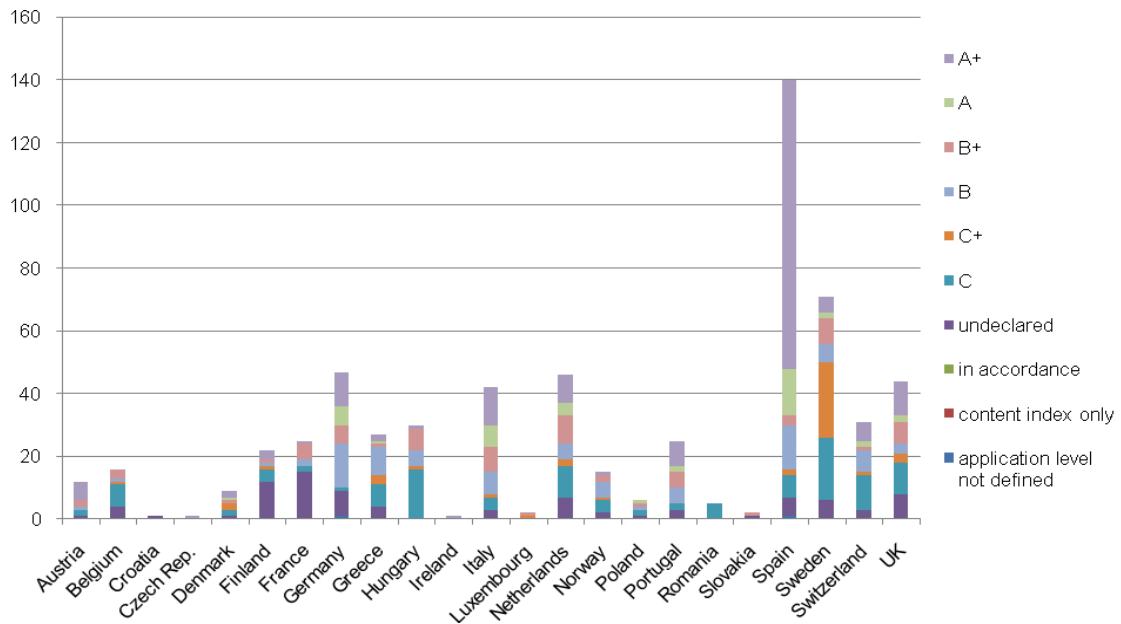
Table 2: First year of GRI report published and first year of UNGC membership by companies per EU Member State

Country	GRI	UNGC	Country	GRI	UNGC
Austria	2003	2003	Luxembourg	2005	2003
Belgium	2005	2003	Netherlands	1999	2000
Croatia	2003	2007	Norway	2003	2000
Czech Rep.	2005	2008	Poland	2004	2004
Denmark	2001	2001	Portugal	2001	2004
Finland	2001	2001	Romania	2009	2005
France	2000	2000	Slovakia	2008	2008
Germany	2000	2000	Spain	2000	2002
Greece	2004	2002	Sweden	1999	2000
Hungary	2002	2005	Switzerland	2001	2000
Ireland	2001	2004	UK	1999	2000
Italy	2001	2001			

Source: <http://www.unglobalcompact.org/participants/search> and
<http://www.globalreporting.org/ReportServices/GRIReportsList/>

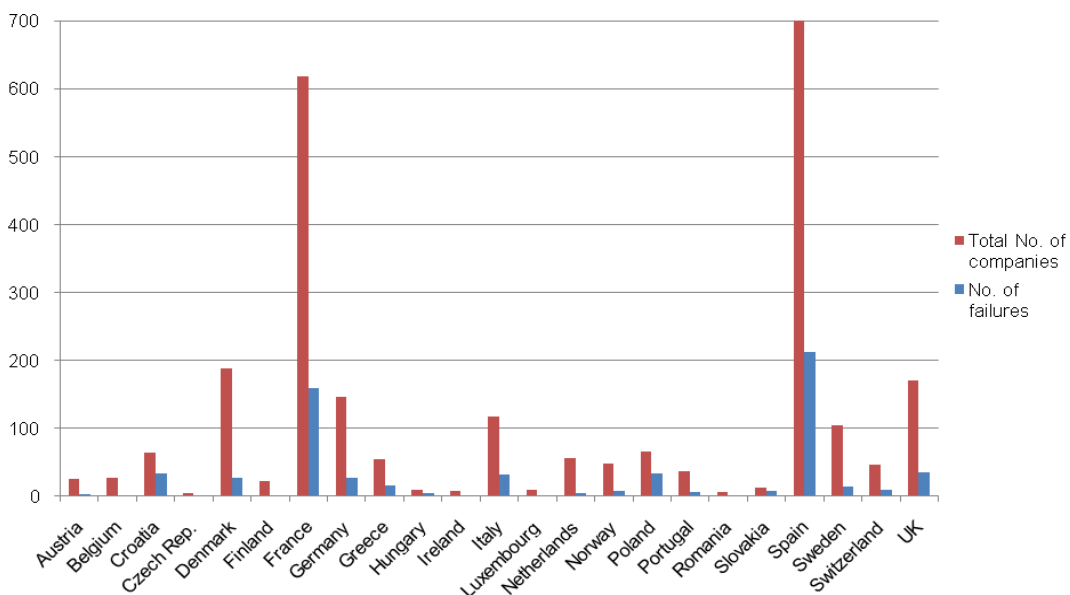
Of all European countries, Spain is the leading country with 22.6 per cent of all European GRI reports in 2009 – mostly due to the fact that the Spanish financial sector started early with reporting (for example the initiative by CECA described in Box 2 in Paragraph 3.2.2.2), raising awareness and stimulating members, clients, associates and customers. Sweden follows with 11.5 per cent, followed by Germany (7.6 per cent), the Netherlands (7.4 per cent) and the UK (7.1 per cent). Figure 7 shows the numbers of GRI reports produced in 23 European countries in 2009, with the level of application. Figure 8 shows the numbers of UNGC business participants per country, most recently. These (larger) companies and SMEs all have to provide a COP (within one year for members who have applied since 1 July 2009, earlier companies had two years to publish their first COP). However, many fail to develop a COP before the relevant deadline (this varies from being late by several days to many months). Figure 8 also shows the number of these ‘failures’ per country.

Figure 7: Number of GRI reports per country in 2009, with application level



Source: <http://www.globalreporting.org/ReportServices/GRIReportsList/>

Figure 8: Numbers of UNGC business participants (companies and SMEs in total) and numbers of COP failures per country



Source: <http://www.unglobalcompact.org/participants/search>

As Figure 8 shows, Spain is leading again, with almost 28 per cent of total business participants. The Spanish Global Compact Local Network is very active, for example in supporting SMEs reporting through an online tool and in facilitating dialogue between

companies and stakeholders through the tool 'The Square Table'. Next is France with 24 per cent, at a distance followed by Denmark (7.4 per cent), UK (6.6 per cent) and Germany (5.8 per cent).

3.3.2.3 Companies' Perspective on the Effect of Reporting Schemes

Companies choose schemes which fit their business (Edelman et al. 2008: 25). Apart from the GRI and the UNGC COP, companies also use other systems and standards in managing sustainability issues and showing performance, such as the Social Accountability International's SA8000 (certification) standard (used for example by Chiquita Brands International) and the ISO14001 for environmental management (used by many companies around the world).

The most important advantages of the GRI Guidelines are a limited set of indicators, a strong performance focus and an improved comparability (WestLB 2007: 13). It is even argued that for companies looking for a global reporting scheme there is currently no alternative to the GRI G3 Guidelines (CSR 2010: 4). At the same time, Corporate Register reports that a number of companies actively decided not to use the GRI framework, because it entails much work on data collection for indicators which may not necessarily coincide with those tracked to define the business strategy (ibid). And for SMEs in general, some companies do not consider the current GRI Guidelines to be a fitting framework (UEAPME 2010; EU Workshop No.1 2009: 6), even though GRI provides SMEs with substantial support (see also Appendix C with reporting schemes). For the Spanish SME Quintas e Quintas, interviewed for this study, working according to GRI, being an international standard, provided the company with a certain reliability and credibility regarding ESG aspects, see also Box 5 in Chapter 5. Another positive characteristic of the GRI system is that it is neutral. GRI does not provide a subjective judgement on the reports and does not rank the reports or the reporting companies, unlike the various ratings and rankings. Such ratings may prevent companies from being completely honest and open (GRI 2010).

A recently published study analyses the effects of the Swedish reporting guidelines for state-owned companies, requiring them to provide sustainability reports in accordance with the GRI. This study was based on questionnaires and interviews with 49 companies. The study shows the following results with regard specifically to the use of the GRI Guidelines³⁰ (Borglund, Frostenson and Windell 2010: 21):

- The GRI Guidelines have in many cases made it easier for companies to define the sustainability process and responsibility. However, to act in accordance with the guidelines, especially in selecting the relevant GRI indicators, was regarded as difficult in most cases.

³⁰ For the complete study, including the results with regard to the uptake of sustainability reporting, processes for reporting on sustainability issues, and the quality of the sustainability reports, see Box 4 in Chapter 4. The report is also downloadable from: <http://www.regeringen.se/sb/d/108/a/152684>

- Properly used, the GRI Guidelines can help to improve management, since sustainability issues are defined and provide targets, which eventually can have an impact on the practices of state-owned companies, and thus promote a more sustainable enterprise. However, companies should seriously reflect on the nature of their activities and identify what areas of responsibility are of key relevance to the organisation, rather than reporting in accordance with GRI's indicators without further thinking.
- For the GRI Guidelines to have the intended effect it is essential that the companies are given the support they need to define key issues rather than producing an exemplary report.
- Companies should be able to adapt the GRI Guidelines to meet the needs of their own organisation, as the guidelines affect companies to different degrees. Companies take active steps to translate the GRI indicators into sustainability parameters that function in their own organisation. How the companies translate GRI into practical action is influenced by their experience with sustainability issues, their industry, geographical scope and organisation.
- To be an effective control instrument leading to changes in the sustainability process, and not merely to reports, flexible conversion to local conditions is required.
- It was concluded by the researches that the GRI model should be a descriptive rather than a prescriptive means of control.

3.3.2.4 Readers' Perspective on the Effect of Reporting Schemes

Reporting schemes are intended to help improve the content and quality of reports. Indeed, readers see standards as important tools for building trust. According to a recent study, among the existing reporting schemes, the GRI Guidelines are regarded as being the most relevant (to around 65 per cent of readers). Sector-based reporting frameworks come in second (32 per cent), followed by stakeholder engagement standards (28 per cent), assurance standards (26 per cent), national reporting standards (24 per cent) and finally the company's in-house reporting guidelines (16 per cent)³¹. Differences among reader groups are small, but stakeholder engagement standards are more appreciated by civil society groups than by other groups (KPMG and SustainAbility 2008: 22). From the interviews with reader groups in this study, the following was found:

- The majority of the interviewees judge positively on reporting schemes in general, and GRI in particular. Advantages are that the schemes bring structure and help companies to implement the right management systems to help their reporting process. Furthermore, the use of schemes can make reports comparable, which is especially important to investors, as they need reliable, comparable information to base decisions on³². When information from reports

³¹ Apparently, in this study the UNCG COP was also not an option to choose from.

³² Bloomberg and Thomson Reuters are already gathering sustainability information gleaned from public company reports, the majority of which are based upon GRI Guidelines and making it available to investors

is based on different metrics, the information is not comparable and thus not very useful to them. On the other hand, for others, comparability is and should not be the key issue in the debate on reporting schemes, as companies themselves are hard to compare.

- The additional indicators for specific industries in the GRI Sector Supplements, identifying key issues to report on, are also positively judged. For some of the reader groups' representatives, sectoral reporting has added value, but according to others it does not change the reporting performance of companies. Some even argue that sectoral reporting might have a negative impact as it can make the reporting process too complex, losing sight of what is relevant for sustainability reporting. Sectoral reporting would run the risk of resulting in reports that are too specialised, harming transparency and the public information function of the report.
- For SMEs none of the existing reporting standards would meet their needs, including the GRI Guidelines. It is argued that using the Guidelines would be too difficult and too extensive. A short, simple and standard form on the Internet, where a limited number of topics could be filled out, might do the job for SMEs. This information could then be gathered, stored and controlled by an independent authority.
- Reporting schemes are not seen as *the* solution, but only as a way to assist companies to report on their performance on sustainability issues. Some argue that reporting should be made mandatory, including the definition of the contents of the report, to prevent reporting from becoming a 'tick-box' exercise where companies can just answer the questions without adding anything to the quality of the content or the reliability of the report, leaving too much room for green-washing. However, others argue against the mandatory use of reporting schemes (or definition of content), since companies face different legislation, are of different size and have different budgets for reporting. Therefore, having only one reporting standard would not work. Furthermore, it is argued that mandatory reporting is not desirable in the light of the economic crisis and the fact that reporting could become a cost-adding factor and might affect a companies' position on international markets.

An important effect of the use of reporting schemes is the use of data of sustainability reports by specialised analysts (like Bloomberg, Thomson Reuters, RiskMetrics) to make data accessible to investors. ESG information is now embedded in a wide range of financial analyses and research platforms. Data are becoming visible, accessible, and users of these data can see who is most efficient in water use, carbon use etc. Many of these analysts realise that standardised reporting makes their research efforts easier. Standardised reporting makes it easier to derive the right data, to compare between companies and to build research around the schemes, for example around the GRI indicators. Because of the increasing amount of research by these well-known

worldwide (The Conference Board 2010). Recently GRI and Bloomberg signed an agreement to enhance this (Garro 2010).

analysts, other analysts are stimulated to follow suit, motivating more companies to (start with) reporting (according to the GRI indicators), pushing reporting and disclosure further down into the supply chain (GRI 2010).

3.4 In Brief

Reporting rankings and awards may constitute an interesting stimulus for the uptake of sustainability reporting and the quality of sustainability reports. However, the research is lacking to support such a relation. Most stakeholders regard reporting schemes as a valuable tool to improve the quality of reporting and to improve comparability between companies. GRI is regarded by many interviewees as ‘the best available’ and ‘a good starting point’. However, others argue that the GRI Guidelines are too complicated for SMEs. Experience from UNGC shows that SMEs, with some support from CSR partners, other SMEs and mentors improve their reports significantly. The use of sector supplements is regarded by many interviewees as a positive development, while others indicate that reports may become too specialised. Furthermore, some argue that using only one reporting scheme may result in a ‘tick-box’ exercise, leaving too much room for green-washing. Ratings based on data from sustainability reports enable investors to make informed decisions on more sustainable investments. Growing research by analysts using data from sustainability reports based on one and the same reporting scheme motivates companies to start reporting in the same way. At the same time, the use of ratings based on these analyses may also prevent companies from being completely honest and open.

4 State of Play of Public Policy Instruments

4.1 Introduction

This Chapter looks into the role of governments and public policy instruments, legislative and regulative, which may contribute to the adoption of sustainability reporting and to a higher quality of reporting, and provide for a better match between the needs of reporting organisations and users of sustainability reports. All instruments discussed here are requirements enforced by governments or policy instruments used by governments referring to initiatives of private organisations.

First a general state of play is presented, including trends and an overview of instruments at EU level (Paragraph 4.2) and at national level (Paragraph 4.3). Second, an overview of instruments is provided based on an analysis of three EU countries and two non-EU countries (Paragraph 4.4). In Paragraph 4.5, the overall effectiveness and impact of the public policy instruments is presented. Does the number of sustainability reports increase as a result of the increase in legislation and regulation by governments? Does the quality of sustainability reports improve as a result of the voluntary and/or mandatory policy instruments used by governments?

4.2 State of Play of Public Policy Instruments at EU-Level

Regarding reporting on sustainability information, the EU has several regulating instruments with implications for all Member States. These instruments are directly in force in all Member States that have to comply with their obligations under the regulation. In turn, the regulations refer to voluntary and mandatory systems with elements of reporting on sustainability information: the Accounts Modernisation Directive, the European Pollutant Release and Transfer Register (PRTR), the Integrated Pollution Prevention and Control Directive (IPPC), the EU Eco-Management and Audit Scheme (EMAS) and the EU Emission Trading System (ETS), which is unique with regard to comparability and transparency. DG Environment has also started working on a methodology for environmental reporting in the framework of the Sustainable Consumption and Production Action Plan. This work is expected to be delivered in the beginning of 2012.

The EU Accounts Modernisation Directive³³ 2003/51 (MD) amended the Accounting Directives and stipulates that from reporting year 2005 onward, European companies must provide a Business Review including non-financial, environmental and social performance indicators, to the extent necessary for an understanding of a company's development, performance or position. Member States may choose to exempt small and medium-sized companies from those non-financial reporting obligations with regard to their annual reports. Another amendment of the Accounting Directives

³³ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32003L0051:EN:NOT>

(Directive 2006/46) introduced an obligation for listed companies to include a corporate governance statement in their annual report. By November 2009, all Member States have transposed the Modernisation Directive and most of the Member States have transposed Directive 2006/46 (literally) in their national laws³⁴ (KPMG et al. 2010). The Modernisation Directive itself does not set any requirements in relation to the type of indicators to be included in the annual report. However, individual EU governments have taken initiatives, in consultation with national stakeholders, to provide companies with further guidance in this regard.

The European Pollutant Release and Transfer Register (E-PRTR) Regulation³⁵ (166/2006/EC) came into force in February 2006, incorporating the provisions of the United Nations Economic Commission for Europe (UN-ECE) Protocol on Pollutant Release and Transfer Register under the Aarhus Convention. It requires operators of facilities undertaking specified activities to report on emissions and specific substances. The E-PRTR is the European-wide register of industrial and non-industrial releases into air, water and land, as well as off-site transfers of waste water and waste including information from point and diffuse sources. The Regulation obliges the European Commission to make this data publicly accessible and to organise it in a way to allow users to search for and identify releases of pollutants from diffuse sources according to an adequate geographical disaggregation and to include information on the type of methodology used to derive the information. Facility-level data is based on the consent of companies.

The Integrated Pollution Prevention and Control Directive (IPPC)³⁶ was established in 1996, and requires Member States to lay down permit conditions for operators to control, monitor and report emissions from IPPC installations. Member States also have to provide data on implementation to the Commission. All industrial and agricultural activities with a high pollution potential are required to have a permit. When requesting a permit, the following information must be submitted:

- A description of the installation and the nature and scale of its activities as well as its site conditions.

³⁴ The following elements of Article 46 are transposed into national laws: (1) The annual report shall include at least a fair review of the development and performance of the company's business and of its position, together with a description of the principal risks and uncertainties that it faces; (2) The review shall be a balanced and comprehensive analysis of the development and performance of the company's business and of its position, consistent with the size and complexity of the business; (3) To the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters; (4) In providing its analysis, the annual report shall, where appropriate, include references to and additional explanations of amounts reported in the annual accounts.

³⁵ http://www.bipro.de/_prtr/index.htm;

Regulation: http://europa.eu/legislation_summaries/environment/general_provisions/l28149_en.htm

³⁶ <http://ec.europa.eu/environment/air/pollutants/stationary/ippc/summary.htm>

- The materials, substances and energy used or generated.
- The sources of emissions from the installation, and the nature and quantities of foreseeable emissions into each medium, as well as their effects on the environment.
- The proposed technology and other techniques for preventing or reducing emissions from the installation.
- Measures for the prevention and recovery of waste.
- Measures planned to monitor emissions.
- Possible alternative solutions.

Data reported under the IPPC flows into the E-PRTR database.

The EU Eco-Management and Audit Scheme (EMAS)³⁷, established in 1995, is a management tool for companies and other organisations, requiring them to evaluate, report and improve their environmental performance. EMAS helps organisations, on a voluntary basis, to optimise their production processes, reducing environmental impacts and making more effective use of resources. One of the aims of the revision, which came into effect on 11 January 2010, was to strengthen the rules on reporting through core performance indicators. It states that organisations should make periodic environmental statements publicly available and, in order to ensure relevance and comparability of the information, reporting on the organisations' environmental performance should be on the basis of generic and sector-specific performance indicators. Core indicators include: 1) energy efficiency, 2) material efficiency, 3) water, 4) waste, 5) biodiversity and 6) emissions. Originally, the EMAS was restricted to companies in the industrial sector, but since 2001 it has been open to all economic sectors. Sectoral reference documents will be developed by the Commission in order to provide sector-based key performance indicators, benchmarks and best-management practice. A work programme is developed, and pilot projects have already started in the following sectors (between brackets the expected dates of completion):

- Retail (first draft available³⁸)
- Public administration (July 2012)
- Construction (December 2011)
- Tourism (December 2011)

The European Emission Trading System (ETS)³⁹, launched in 2005, is a cornerstone of the European Union's policy to combat climate change and the key tool for reducing industrial greenhouse gas emissions cost-effectively. Being the first and biggest international scheme for the trading of greenhouse gas emission allowances,

³⁷ Council Regulation (EEC) No. 1836/93 of 29 June 1993, revised in 2009 to Regulation EC No. 1221/2009. For more information visit http://ec.europa.eu/environment/emas/documents/legislative_en.htm

³⁸ http://susproc.jrc.ec.europa.eu/activities/documents/Final_Draft_18.10.10._000.pdf

³⁹ http://ec.europa.eu/clima/policies/ets/index_en.htm

the EU ETS covers some 11,000 industrial plants in 30 countries (the 27 EU Member States plus Iceland, Liechtenstein and Norway). It covers CO₂ emissions from installations such as power stations, combustion plants, oil refineries and iron and steel works, as well as factories making cement, glass, lime, bricks, ceramics, pulp, paper and board. Airlines will join the scheme in 2012. The EU ETS will be further expanded to the petrochemicals, ammonia and aluminium industries and to additional gases in 2013, when the third trading period will start. At the same time a series of important changes to the way the EU ETS works will take effect in order to strengthen the system. The EU ETS works on the "cap and trade" principle⁴⁰. The number of allowances is reduced over time so that total emissions fall. In 2020 emissions will be 21% lower than in 2005. The EU ETS has shown that it is possible to trade in greenhouse gas emissions: emissions from installations in the scheme are falling as intended. The EU hopes to link up the ETS with compatible systems around the world to form the backbone of a global carbon market.

Article 14 of the EU ETS Directive (Directive 2003/87/EC) requires the Commission to adopt guidelines for the monitoring and reporting of greenhouse gas emissions under the ETS. The Article also requires Member States to ensure that operators of installations and aircraft operators monitor and report their greenhouse gas emissions in accordance with these Monitoring and Reporting Guidelines (MRG), which are legally binding. The original MRG were established by the Commission Decision of 29 January 2004, for use in the first trading period from 2005 to 2007. On 18 July 2007 the Commission adopted a revised version of the Guidelines, MRG 2007, which play a vital role in the compliance and enforcement strategy of the EU ETS. The revised guidelines are closer to common industrial practices regarding monitoring and reporting done by operators (e.g. use of standard factors for commercial fuels) and more cost effective, especially for small emitters (lighter monitoring requirements for small installations/small emitters < 25,000 tonnes CO₂) and for installations using biomass fuels. Furthermore, the revised Guidelines are more aligned with reporting made by Member States under national greenhouse gas inventory requirements, and verification procedures of the monitoring and reporting are strengthened. The integrity of the system is reinforced, maintaining accuracy and credibility of monitoring and reporting. In order to improve administrative efficiency and harmonised approaches in the Member States, the Commission has published electronic templates for monitoring plans and reports for tonne-kilometre data and annual emissions from aviation activities in accordance with Annexes XIV and XV of the MRG. Furthermore the Commission is

⁴⁰ With this principle there is a "cap", or limit, on the total amount of certain greenhouse gases that can be emitted by the factories, power plants and other installations in the system. Within this cap, companies receive emission allowances which they can sell to or buy from one another as needed. The limit on the total number of allowances available ensures that they have a value. At the end of each year each company must surrender enough allowances to cover all its emissions, otherwise heavy fines are imposed. If a company reduces its emissions, it can keep the spare allowances to cover its future needs or else sell them to another company that is short of allowances. The flexibility that trading brings ensures that emissions are cut where it costs least to do so.

currently developing an XML⁴¹ (eXtensible Markup Language) scheme for harmonized electronic reporting.

4.3 State of Play of Public Policy Instruments at National Level

4.3.1 Role of Governments

Governments are key players in the sustainability debate and in the promotion of sustainability reporting. They have been active at a number of levels in encouraging the development and use of environmental, social and governance reporting as they have recognised, as was also stated during the Governments Main Hall Session of the GRI Conference 2010 (Amsterdam GRI Conference 2010), that “business is not only supposed to deliver economic growth, but also to respect legal, ethical and sustainable aspects”. Examples of actions taken by governments are (ibid):

- Developing CSR guidance on best practices to their business community, reflecting conditions and setting the international context.
- Creating instruments to benchmark and recognize good performance, like the Dutch Transparency Benchmark⁴².
- Convening of Member States and the EU Commission, together with business, NGOs and other stakeholders (like the EU Workshops on the Disclosure of ESG information 2009-2010).
- Profiling and encouraging the use of specific global initiatives that promote reporting, e.g. by referring to these initiatives in sustainability policies or legislation.
- Promoting policy coherence through cooperation, internally and externally. Examples of internal cooperation within one country, are 1) Denmark creating a reporting system where one ministry is responsible; or 2) Spain, where the creation in 2008 of the State Council for Corporate Social Responsibility has proven to be one of the most important examples of cooperation between stakeholders: the council is an advisory and consultative body at the service of the government, involving government, trade unions, employer associations and representatives of civil organisations and experts, with the objective of strengthening and promoting CSR policies in Spain. One of the working groups of the Council deals with reporting issues (Garro 2010). External cooperation is for example governments looking to advance greater coherence between various CSR and reporting initiatives.
- Partnering with CSR initiatives and participating in the development of instruments, also through funding.

⁴¹ XML is a set of rules for encoding documents in machine-readable form, which is designed to structure, transport and store data.

⁴² See footnote No. 7.

- Introduction of legislation and regulation requiring sustainability reporting by (state-owned) companies, which often has been done in consultation with the business sector, and which is aimed at using the power of information to make national business more competitive internationally.

This last action, the introduction of legislation and regulation (public policy instruments), is discussed in the next Paragraphs.

4.3.2 Trends in Activities of Governments

As mentioned, by 2010 all Member States have transposed the Modernisation Directive and most of the Member States have transposed Directive 2006/46 in their national laws. However, governments have done much more beyond this EU Directive: states are taking up a stronger role in ensuring a minimum level of disclosure and risk prevention. A number of countries have included mandatory and voluntary requirements for reporting in their national legislation. Early adopters were Sweden, France and Germany (2001), followed by for example Norway, Belgium and Italy in 2004. Western European countries⁴³ have more regulations in place than Eastern European countries, where only Hungary and Romania have some extra (mandatory) standards in place, besides transposing the Modernization Directive. Romania has established a law (no. 265/29 June 2006) related to environmental protection that defines the environmental report as an analysis document necessary in the process of plans and programmes promotion (FEE 2008: 53). In Hungary the awareness of corporate responsibility and reporting practices is not only driven by government (through the Accounting Act and Act XV about Greenhouse Gas unit trading), but also by media, civil society and multinationals applying policies and procedures (KPMG 2008: 81).

In contrast to the trend of growth in legislation on reporting in EU countries, around 2005-2006 some EU governments loosened their requirements on sustainability reporting to “avoid them becoming an unnecessary burden on companies and limiting the information that it provided in annual reports as far as possible to what is relevant for the financial position of companies” (OECD 2006: 28/29). However, over the last four years, again a trend is becoming visible towards more governments starting to make sustainability reporting mandatory. Governments becoming more active and starting to regulate, was one of the main conclusions of the updated 2010 Carrots & Sticks publication by KPMG, GRI, UNEP and the University of Stellenbosch⁴⁴. Of the more than 140 national standards identified in this study on voluntary and mandatory approaches to sustainability reporting, in which 30 countries were selected, roughly two

⁴³ Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the UK have (several) mandatory and voluntary regulations

⁴⁴ Available from:

<http://www.kpmg.com/ZA/en/IssuesAndInsights/ArticlesPublications/Advisory-Publications/Pages/Carrots-and-Sticks-2010.aspx>

thirds are mandatory (KPMG et al: 13). Moreover, another developing trend is the fact that governments combine mandatory and voluntary approaches. The voluntary standards or guidelines are designed to assist companies and/or public agencies in reporting (ibid). Voluntary standards are complementary to mandatory standards, but can also function as pre-law: governments might prefer to use “soft power” before they legislate, aiming to provide guidance to companies, without having to pass through official procedures towards legislation (ibid).

In most cases, the organisations or entities addressed through regulation are companies listed on a stock exchange and/or companies of a certain size (assets, employees), state-owned companies, large emitters or energy-intensive companies, public agencies and NGOs. The regulations vary in the level of transparency, the extent of disclosure and to whom information is disclosed, the level of integration (stand-alone or integrated reporting) and the legislative fields that are covered (KPMG et al. 2010: 12).

4.4 Overview of Public Policy Instruments in Five Countries

4.4.1 Introduction

Over the last decade, many governments have launched new regulations to establish sustainability disclosure requirements. France was the first European country with legislation in 2002. The UK was the first country that established a formal obligation for pension funds to disclose sustainability information in 2000 (European Alliance for CSR 2009). Following these initiatives, many other governments have put similar rules on sustainability reporting in place, also outside the EU: Japan, Canada, Brazil, South Africa and the USA all show an uptake of mandatory and voluntary policy instruments by their governments. These initiatives have effect on the numbers of companies reporting and on the content of the reports. However, as there are many different types of public policy instruments related to reporting in the EU Member States, as well as in some non-EU countries most active in this field, it is impossible to provide a full overview of all the instruments, including their effect and impact on reporting companies and the number and quality of the reports. For that reason, three EU countries and two non-EU countries with policy instruments on reporting in place will be discussed in the next Paragraphs. Selected countries are France, the United Kingdom, Denmark, South Africa and the USA. For each country, a brief overview will be presented of the main drivers for reporting, the major instruments, the actors involved and the impact of the policy instruments. A factsheet per country with a description of policy instruments with mandatory and voluntary implications for reporting is presented in Appendix B. In Paragraph 4.5 the effectiveness and impact of public policy instruments in general will be presented. It is important to realise that the public policy instruments mentioned are not all instruments implemented with the direct purpose of raising the number of sustainability reports or influencing the quality of the reports. In many cases, the instruments are general (corporate) laws that may have mandatory or voluntary implications for sustainability reports or for companies to report on

sustainability issues within their annual or financial reports (which does not necessarily result in a sustainability report). The information on effect and impact of the policy instruments is what the countries themselves have evaluated, or are expecting to evaluate.

4.4.2 France

4.4.2.1 Governmental Institutions and Initiatives

France has already launched a considerable number of national public initiatives with the aim of improving transparency in businesses. Depending on the initiative, the State plays a more or less direct role. In the EU Workshops on Disclosure of ESG information, France expressed its wish for the European Union to work on defining a European reporting standard since Europe has a role to play in the field of sustainability reporting. According to France, some harmonization and benchmarking is necessary and there is a need to address the issue of suppliers outside Europe, taking into account the fact that the same requirements cannot be placed on large and small enterprises.

4.4.2.2 Public Policy Instruments

France was the first country to make public company reporting (on sustainability issues) mandatory. The tradition of non-financial reporting in France can even be traced back to the 1970s, when the President of the Republic obliged all companies with 300+ employees to publish a social review ("*bilan social*") that included more than 100 performance indicators. After the Act of 15 May 2001 on New Economic Regulations (NER), other relevant laws were introduced, which included professional equality between men and women and industrial risks.

In 2009, a draft law for a national engagement towards the environment was created, for the implementation of the *Grenelle 1 Act*⁴⁵. Draft Article 26 states the requirement for companies with more than 500 employees in high-emitting sectors (list yet to be defined) to publish the amount of greenhouse gas emissions by 1 January 2011 at the

⁴⁵ The Grenelle 1 Act of 3 August 2009 has the aim of studying the possibility of extending the NER law to unlisted companies, which exceed a threshold of net sales, balance sheet or number of employees, including those in which the state directly or indirectly has a majority holding. Subsidiaries controlled by parent companies should also be required to disclose information. An extensive consultation of all stakeholders involved has been conducted by public authorities in order to reach a consensus on the sustainability decisions to be taken within the following years. Moreover, the impulse came from the political authorities, and objectives have been set up. It is a general law from which several decrees will result in a short time. Furthermore, France will propose the introduction at European Community level of the principle of recognizing corporate responsibility of parent companies with regard to their subsidiaries causing serious harm to the environment, and will also support this guideline at an international level. This will support the introduction of environmental criteria, notably those on biodiversity, actively used by international financial, economic and trade institutions. For more information visit: http://ameli.senat.fr/publication_pl/2008-2009/581.html.

latest, with an update at least every five years. Recently, the NER has been enlarged through the *Grenelle 2 Act*⁴⁶, through which new environmental laws will be effective and through which the reporting duties are intensified: Article 83 extends, under conditions, the obligation of the NER law to all companies of 500 employees and more, to present a social and environmental report. This would affect around 2,500 companies. To further inform and train all types of stakeholders on reporting issues a platform website project on CSR has been created. This website, released in spring 2010, covers the most widely recognised initiatives on sustainability reporting by organisations, with the aim of guiding companies in an educational way in their disclosure initiatives. It will not emphasize best practices in this field.

See Appendix D for a complete list of policy instruments in France.

4.4.2.3 Effect and Impact of Instruments

The NER law has already acted as a catalyst by obliging listed companies to integrate social and environmental concerns into their management system.

According to the 2004 review by the '*Observatoire sur la Responsabilité Sociétale des Entreprises*' (ORSE), based on reports of the 40 largest companies, most CAC40⁴⁷ (*Cotation Assistée en Continu*) companies conformed to the obligation of social and environmental reporting. Ten of these companies refer to GRI, reflecting the concern of major companies to try and conform to an international standard. Half of the 40 companies disclosed an integrated report. The other half disclosed the information in a separate report. The definition of the reporting boundary (reporting on the holding company or on all operations) proved to be one of the major difficulties. Very few companies have information regarding suppliers, and when they do, it mostly relates to hygiene and safety issues.

In January 2010, a new evaluation of the NER law was published, also by ORSE⁴⁸. According to this evaluation, the NER law seems to have mobilized companies and driven the creation of CSR/sustainability expertise.

It was reported in 2008 that listed entities were already making disclosures based on Article 46 of the EU Modernisation Directive in relation to environmental matters. This was not yet the case for non-listed entities (FEE 2008).

⁴⁶ <http://www.senat.fr/leg/pjl08-553.html>

⁴⁷ The CAC 40 is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Euronext Paris.

⁴⁸ http://www.orse.org/site2/maj/phototheque/photos/actualite/_benchmark_CAC40.pdf

4.4.3 United Kingdom

4.4.3.1 Governmental Institutions and Initiatives

The UK does not have a separate department on CSR, but does have a strong public guidance of companies according to which companies have to report in detail on environmental issues, their emissions etc. The approach of the UK Government has always been to strike the right balance between a voluntary approach and regulation and to promote the view that imposing new burdens on business could adversely affect competitiveness and stifle innovation⁴⁹. Most active governmental institutions and departments regarding instruments for company reporting are the UK treasury, the Financial Reporting Council and the Department for Business Innovation & Skills (BIS). The Environment Agency is concerned with UK's strategy for improving energy efficiency and reducing carbon dioxide and thus with reporting on greenhouse gases.

4.4.3.2 Public Policy Instruments

The UK's Companies Act 2006 requires all companies, other than those defined as small, to produce a "Business Review" as part of the annual directors' report, to the extent necessary for an understanding of the business, to report on environmental, employee, social and community matters or essential contractual or other arrangements. If it does not contain information on one of these issues, it must state so. The Government's aim is to encourage meaningful strategic, forward-looking information to assist shareholder engagement, while avoiding disproportionate burdens on business. The first Business Reviews under the 2006 Act were expected from January 2009⁵⁰. After a public debate over the last three years, the Business Review became mandatory for private companies. The Operating and Financial Review (OFR) is only mandatory for government entities.

The UK Corporate Governance Code, for listed companies, and the UK Stewardship Code, for institutional investors, are complementary. Currently, both are applied on a "comply-or-explain" basis. However, a consultation will begin on proposals to introduce a mandatory requirement for authorised asset managers to disclose whether or not they comply with the Code. In August 2010, the UK Government published a consultation on narrative reporting to identify ways to implement its commitment to reinstate an Operating and Financial Review (OFR), to ensure that directors' social and environmental duties will be covered in company reporting, and to investigate further ways of improving corporate accountability and transparency.

The UK Government has invested a lot of work on Greenhouse Gas (GHG) Emissions reporting, including extensive consultation with stakeholders on what they should measure and report. The Climate Change Act of 2008 was introduced to ensure that the UK accounts for all six Kyoto gases. Guidance on this was published by October

⁴⁹ From an interview in the course of this study

⁵⁰ HM Government Corporate Responsibility Report

2009. This is an area of ongoing policy development. With the various requirements in the Climate Change Act, it needs to be considered whether to make it mandatory for (large) companies to report on GHGs. By 6 April 2012, the UK Government is required to exercise powers under the Companies Act to require the inclusion of GHG reporting in a company's Directors' Report. This is a significant change and any company reporting such information should follow the developments of this legislation⁵¹. It is expected that a decision will be taken on this later in 2010. On other environmental matters, the UK Government is just starting to review the guidance published in 2006, which explained to companies how they should report on a range of environmental matters such as water and waste.

See Appendix D for a complete list of policy instruments in the UK.

4.4.3.3 Effect and Impact of Instruments

According to the 2008 survey by the *Federation des Experts comptables Européens* – Federation of European Accountants (FEE) – on the implementation of the Modernisation Directive, the majority of relevant UK entities are now reporting in accordance with Article 46 as implemented in UK company law. However, the extent and quality of environmental and social disclosures varies quite widely (FEE 2008: 59). UK entities do disclose quantitative information on non-financial performance in their annual report, and half of those examined in the study achieved a high standard of such disclosures. Reporting was concentrated on risk assessment and the associated need for provisions against future costs concerning matters such as: environmental issues, social and environmental legal cases, emissions measurement and asset decommissioning. There is in particular extensive coverage of supply-chain issues, compliance with CSR stock exchange indices (e.g. FTSE-4Good, Dow Jones Sustainability Index, Business in the Community Index), use of renewable energy sources and CSR governance (FEE 2008: 25).

In March 2009, the Financial Reporting Council launched a review with a call for evidence inviting views on which parts of the Corporate Governance Code have worked well and which need further reinforcement. The outcome of the review showed that there is scope for further improvement in the quality of communication by companies and engagement between companies and investors. New Code Principles were proposed for the roles of the chairman and non-executive directors, the composition of the board, the commitment expected of directors and the board's responsibility for risks. Strengthened provisions on director development, board evaluation and the frequency of director re-election were also proposed. Furthermore, it was concluded that it is important to maintain the integrity of a single Code for companies, so no sector-specific provisions should be added to address the issues that have arisen with respect to the governance of banks and other financial institutions.

⁵¹ <http://www.defra.gov.uk/environment/climatechange/uk/legislation/>

From this, the Stewardship Code was developed and issued separately from the Governance Code in July 2010.

It is expected that the reporting impact of the CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment) on middle-market companies in the UK will be significant. It is likely that a large number of the 3,000 to 4,000 companies will be included in the CRC which previously have not reported on non-financial information.

4.4.4 Denmark

4.4.4.1 Governmental Institutions and Initiatives

The Danish Commerce and Companies Agency is the authorized body for the implementation of the Danish Financial Statement Act (EOGS 2010), which is the base on which the EU Modernisation Directive is implemented. The Environmental Protection Agency is responsible for the disclosure of environmental information and has issued the statutory order for the Green Accounts Act in 1995 (Danish EPA, no date). By providing the possibility of basing the disclosure of sustainability information on international instruments, Denmark has explicitly refrained from developing its own national standards, but rather relies on instruments such as the Global Compact.

4.4.4.2 Public Policy Instruments

In 1995, Denmark introduced mandatory disclosure of environmental information into environmental legislation. In 2001, the disclosure of non-financial information was included in the Danish Financial Statement Act, making it one of the first countries to include part of the EU Commission's recommendations on reporting into legislation. From 2010 onward, the approximately 1,100 largest Danish companies have to report on their CSR-policy on a comply-or-explain basis in their annual report. A similar requirement is put in place for institutional investors, mutual funds and listed financial businesses. Companies have to provide information on their policies for CSR and sustainable and responsible investment (SRI), on how the policies are implemented and on their results, as well as on management expectations for the future. Denmark opted for not developing its own standard but to refer to and to encourage the use of international reporting frameworks, such as the UN Global Compact and the related Communication on Progress or GRI. CSR and SRI are still voluntary; however, businesses without policies on social responsibility are obliged to provide information in this respect. There is no specific format on how information needs to be provided (in the annual report, as an addendum, on the website, or otherwise), but the annual financial statement should make it clear where the stated information can be found (EOGS, 2010).

The law on sustainability reporting is only one element of a larger government CSR Action Plan that includes other measures, such as encouraging Danish companies to sign up to the UN Global Compact, or to use OECD Guidelines. Additionally, the

Danish Commerce and Company Agency supports a set of tools to improve sustainability reporting by Danish companies. The different instruments range from the Climate Compass, which is aimed at helping companies to work with and report on climate issues, to guidance for SMEs on how to implement the 10 Global Compact Principles. Most of these tools are web-based and implemented in partnership with other actors. They help companies with specific information on different CSR-related topics, provide practical guidance for implementation, as well as practical guidance and recommendations for companies on reporting⁵².

See Appendix D for a complete list of policy instruments in Denmark.

4.4.4.3 Effect and Impact of Instruments

In Denmark, the legislation has been an important trigger for increased sustainability reporting. A recent study on impacts shows that 97 per cent of the companies provide information about CSR, of which 91 per cent state that they work with CSR. The majority of these companies account for their policies and actions, while 37 per cent account for achievements resulting from working with CSR. Furthermore, 43 per cent of the companies accounting for CSR had not previously reported on CSR in their annual reports (Danish Commerce and Company Agency 2010: 7-9). Nine per cent of companies report that they do not work on CSR. Encouraging Danish companies to sign up to the UN Global Compact resulted in an increase from 30 to 187 Danish signatory companies (as of 1 November 2010) (EU Workshop No.3; UNGlobalCompact 2010). The example of Denmark shows that it is possible to combine mandatory reporting with the possibility leaving the way open with regard to how reporting is implemented by the companies.

4.4.5 South Africa

4.4.5.1 Governmental Institutions and Initiatives

South Africa has played a prominent role in the sustainability reporting debate. Since many years, there have been discussions on transparency and disclosure in debates such as those about disinvestments from South Africa under the old Apartheid dispensation. This prominent role has been acknowledged in international surveys and is also reflected to some extent by the leadership position of South African citizens in initiatives such as the Global Reporting Initiative and the ISO 26000 process. Where at global level a new collaboration, the International Integrated Reporting Committee (IIRC), has been set up recently, aiming for the creation of a globally accepted “integrated” framework for accounting for sustainability (see Paragraph 2.4.4 on Integrated Reporting), South Africa itself has formed an Integrated Reporting

⁵² A short English version of this guidance, “Reporting on corporate social responsibility – an introduction for supervisory and executive boards” is available at:

http://www.samfundsansvar.dk/graphics/publikationer/CSR/Reporting_CSR_L5_UK_05.pdf

Committee. This Committee will issue guidelines on best practice in integrated reporting and it will work together with the global IIRC to promote the international harmonization of guidelines on integrated reporting.

4.4.5.2 Public Policy Instruments

Since 1994 (transition to democracy), measurement and reporting on specifically social transformation issues (e.g. black economic empowerment and employment equity) have become entrenched in legislation. The first instrument that became a main driver of sustainability reporting for companies was the second King Code on Corporate Governance (2002), formalising corporate governance requirements and stating that “every company should report at least annually on the nature and extent of its social, transformation, ethical, safety, health and environmental management policies and practices”. The third King Code of Governance Principles for South Africa (King III), which became effective on 1 March 2010, emphasises the importance of integrated reporting. The second main driver is the Johannesburg Stock Exchange (JSE) Socially Responsible Investment Index (SRI Index). The JSE SRI Index encourages companies to report publicly on sustainability-related issues. The SRI Index was the first of its kind in an emerging market, and the first ever to be launched by a securities exchange.

See Appendix D for a complete list of policy instruments in South Africa.

4.4.5.3 Effect and Impact of Instruments

According to a study in 2008 (KPMG), 86 per cent of the top 100 companies in South Africa include some level of sustainability reporting in their annual reports, reflecting the influence of the King Code for Corporate Governance. One in four companies includes reporting on their carbon footprint in their sustainability report. Unpublished research from 2008 by the Unit for Corporate Governance in Africa at the University of Stellenbosch Business School revealed that the top 40 of listed companies report most comprehensively on environmental management issues.

Companies, particularly in heavy industries, reflect the importance of the Employment Equity Act by reporting against the requirements of the Act. It is not, however, a major driver of reporting. Reporting against the criteria of the Black Economic Empowerment (BEE) Act and the associated charters has driven the structure of some reports.

As the Companies Act provides for holding directors personally liable for poor performance and poor public disclosure of information, it is expected to have an important impact on reporting.

South Africa is one of the first countries in the world to require integrated reporting of listed companies. The over 450 companies on the Johannesburg Stock Exchange will be required to produce an integrated report instead of their annual financial report and sustainability report, starting from 1 March 2010. It is expected to give users an all-round view of the company by including ESG performance along with the company's financial performance. It is also likely to further increase both the quantity and quality of

sustainability reports. The issue companies face, however, is that there are no set standards on integrated reporting.

Although not being a public policy instrument, the Corporate Governance Rating (CGR) Matrix has a strong emphasis on disclosure of social and environmental performance, and is an emerging driver for corporate reporting on sustainability information in South Africa. The CGR Matrix was introduced in 2008 by the Public Investment Corporation (PIC), a government-owned asset manager, and is supposed to play a major role in encouraging a shift in corporate mindsets away from a short-term focus towards delivering long-term value. It measures corporate governance levels of the top 40 Johannesburg Stock Exchange (JSE) -listed companies in South Africa annually. In 2009 the Matrix revealed that South Africa's mining and banking sectors have the best records in terms of corporate governance and disclosure. Also the PIC's commitment to transparency and disclosure is likely to have a big impact on reporting practices over the next few years (PIC Corporate Governance Rating Matrix 2010).

4.4.6 United States of America

4.4.6.1 Governmental Institutions and Initiatives

In the US, there are three important bodies responsible for non-financial reporting. After the Exxon Valdez oil spill in 1989, the Coalition for Environmentally Responsible Economies (CERES) was formed and it has played an important role in advancing the notion of environmental and sustainability reporting (CERES 2010).

The Securities and Exchange Commission (SEC) is authorized by the basic USA securities laws to require the disclosure of information that is “necessary or appropriate in the public interest or for the protection of investors” (Securities Act, Section 2b). The SEC has been authorized by Congress to issue regulations in the public interest.

The Environmental Protection Agency (EPA) is responsible for a variety of other non-financial reporting requirements such as the Toxic Release Inventory or the planned Mandatory Greenhouse Gas Reporting Rule.

4.4.6.2 Public Policy Instruments

The US has the strictest rules for disclosure of the five countries analysed. First, demands for disclosure of environmental data have already been in place since 1971. Regulations are applied to a variety of issues related to sustainable development. Non-financial reporting started in the late 1980s with the so called “right-to-know” legislation. It is dominated by the disclosure requirements of the SEC. Generally, it can be stated that disclosure requirements concern all material information (information that investors would regard as significant when buying shares), and can also apply to information that is financially insignificant (Division of Corporate Finance 2010; KPMG 2006).

The two most important disclosure requirements are the SEC regulations (republished in 2008) and the Sarbanes-Oxley Act of 2002. The SEC regulations require an

appropriate disclosure of all material issues having an effect on legislative compliance, judicial proceedings and liabilities relating to the environment. In order to fulfil this broad mandate the SEC has issued regulations, instructions, interpretative and explanatory releases that have created an extensive and highly integrated disclosure system. The Sarbanes-Oxley Act integrates requirements for corporate governance into disclosure requirements. It has been integrated into the SEC regulations and applies to all listed companies, including foreign ones. It emerged after several corporate scandals, such as Enron and WorldCom (KPMG 2006).

The EPA has developed a rule on Mandatory Greenhouse Gas reporting which still needs to be enacted. It will provide a better understanding of where GHGs are coming from and guidance on the development of sound policies and programs to reduce emissions and fight climate change. This proposed rule would cause carbon dioxide-intensive industries in the United States to measure and report on the carbon dioxide emissions inherent in their operations. However, there are many US States that are currently suing EPA to stop it from issuing rules controlling greenhouse gas emissions until it re-examines whether the pollution harms human health (Gardner 2010).

Recent developments in sustainability disclosure include the shift of the SEC to integrate ESG concerns and the release of interpretative guidance on how to disclose climate change risks at the beginning of 2010.

See Appendix D for a complete list of policy instruments in the US.

4.4.6.3 Effect and Impact of Instruments

Generally it can be stated that the fact that the US, as the largest financial regulator in the world, recognises the importance of environmental and lately also sustainability reporting, demonstrates the relevance of non-financial disclosure. However, there are a number of challenges and critical voices related to the mainly rule based approach.

First of all, there is a debate on the delegation of regulatory power to the stock exchange control: generally, there is little evidence that the SEC is really taking on a broader role and responsibility for sustainability disclosure. Environmental enforcement by the SEC has been rare and requirements are oriented towards guaranteeing smooth capital markets and protecting investors rather than environmental and social responsibility (KPMG 2006: 52).

The Section 404 requirements for top executives of the Sarbanes-Oxley Act to sign off on detailed internal controls have been accused of imposing a too heavy regulatory burden on companies, for example by not explaining the scope of internal and external checks required. There is ongoing discussion that the US is losing competitive advantage due to the complex regulations related to corporate governance. American companies deregistering from public stock exchanges nearly tripled during the year after the Sarbanes-Oxley Act became law, while the New York Stock Exchange had only 10 new foreign listings (Leuz: 2004). Especially for smaller companies, costs to comply with Section 404 are significant, since a high fixed cost is involved to do the assessment (SEC 2006).

4.5 Overall Effectiveness and Impact of Public Policy Instruments

Research by the OECD on the scope, effectiveness and reliability of corporate communication on sustainability towards consumers, suggests that public policies on sustainability reporting may not be the only or most suitable policy measure to ensure that readers obtain relevant, complete and reliable information about companies, compared to other policy instruments that are targeted to specific stakeholder groups, such as EU legislation on unfair trading practices, consumer education or investor information (OECD 2010). One of the major current discussions is the one between voluntary and mandatory reporting through public policy instruments. While 10 years ago companies would usually argue strongly against mandatory standards, the discussion has matured over the last few years and there are different types of stakeholders including companies that promote regulation now. On the other hand, actors traditionally promoting regulation, such as trade unions, are using voluntary standards, and also governments sometimes refer to the use of the GRI Guidelines, as a voluntary standard (KPMG et al. 2010). Most companies would still prefer voluntary standards (EU Workshop No.1 2009: 6). They state that harmonisation and obligation in this field would be counter-productive. Individual national frameworks or even legislation would lead to a mess of different schemes and obligations. Especially MNEs operating in various countries, and thus potentially liable to various standards, would be accountable under different legislations or regulations (ibid). Two multinational companies interviewed during the course of the study expressed their worries related to a non-uniform standard. Especially in the case of publishing local reports, as well as a global report that summarizes information from the local level, differing disclosure requirements become problematic. A recent Spanish study⁵³ showed that since the Modernization Directive was launched, at least 44 legal reforms related to the elaboration of sustainability reports and CSR have been produced within EU Member States. An example from the Spanish region Extremadura, where a regional law led to criticism from almost every stakeholder, is described in Box 3.

Box 3: Extremadura, Regional Law on Reporting

The Autonomous Community of Extremadura recently decided to promote new legislation that encourages companies operating in Extremadura to report on CSR issues. Incentives were created, such as a Regional Award scheme and a Regional Certification for companies that prove to be responsible by implementing CSR measures. However, stakeholders were afraid that this law would damage the competitiveness of the Spanish companies operating in the region (Garro 2010).

A major argument in favour of a voluntary use of reporting schemes is that one size does not fit all (KPMG et al. 2010) and that existing voluntary schemes have been

⁵³ *Guía de Normativa 2010. Informes de Sostenibilidad en la Unión Europea*, published by *Foro de Reputación Corporativa* and *Cuatrecasa*.

produced by consultation and seeking consensus between businesses, stakeholder groups, shareholders, and investors (Arnold 2008: 16). On the other hand, some argue that mandatory schemes are deemed necessary because not enough companies are taking up voluntary approaches. Thus there would be a need for increased regulation, which would add credibility to reports and help ensure a minimum level of disclosure (KPMG and UNEP 2006: 5). The example of Denmark shows that it is possible to combine mandatory reporting with the possibility of leaving the way with regard to how reporting is implemented to the companies (EOGS 2008).

At the same time it should be realised that in many countries companies had already been publishing sustainability reports, before governments introduced public policy instruments. For example, the UK has a very active approach to sustainability issues, which is reflected by the high number of companies that already began to develop and publish sustainability reports, even before the government turned it into a mandatory practice in 2006. The driving forces of this movement were especially the financial communities, business players and NGOs. Also many reporting experts are based in the UK, where standards like AA1000 have been developed. The decisive factor for many UK companies to take up reporting was active lobbying of stakeholder groups and media attention rather than governmental regulation on sustainability reporting.

At the Governments Main Hall Session at the GRI Conference 2010, it was recognised that governments have already taken many actions, besides legislation and regulation. At the same time some key recommendations were formulated for governments to do even more (GRI 2010):

- Better implementation of their own existing policies and regulations, both nationally and throughout supply chains.
- Using sustainability reporting in public agencies and generally promoting awareness of the benefits within government.
- Assisting in the development of indicators and mechanisms to better measure and integrate sustainability factors, including human rights, referring for example to the recommendations of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, Prof. John Ruggie⁵⁴.
- The need for sustainability reporting to address key material issues.
- Exploring the 'comply or explain' approach to reporting.
- Being an active participant in key debates on the future of reporting, such as the debate on integrated reporting.
- Helping developing countries with data collection technologies.

⁵⁴ In November 2010 the Special Representative posted draft Guiding Principles making the UN Protect, Respect and Remedy Framework operational. A number of these Principles touch on transparency, communication and reporting. Guiding Principles 5 and 19 may be of particular interest in this regard. The Guiding Principles are available at <http://www.srsconsultation.org> and one can contribute to an online consultation on the Guiding Principles here. For more information on the work of Prof. Ruggie visit: <http://www.business-humanrights.org/SpecialRepPortal/Home>

Furthermore, governments could also play a role against fragmentation by reinforcing the demand and call for harmonization of guidance, aiming for an international reference level. Moreover, governments could take a leadership role by requiring state-owned companies to report. For example, Sweden and China have guidelines for state-owned companies, and other governments are following these examples, or are considering this (e.g. India) (GRI 2010; Borglund, Frostenson and Windell 2010). For the results of the research that was conducted on the effects of the reporting requirements of Sweden, with regard to the uptake of sustainability reporting, processes for reporting on sustainability issues, and the quality of the sustainability reports⁵⁵, see Box 4.

4.6 In Brief

Public policy instruments on sustainability reporting vary widely, in type, focus and actors involved. The effect and impact of the different public policy instruments is difficult to measure. However, in certain cases, like in Denmark and Sweden, government policies have contributed to a stronger uptake of sustainability reporting. At the same time, in countries like the UK many companies had already been reporting, before the government introduced legislation. In this case, driving forces of reporting practices were (apart from lobbying and media attention) the financial communities, business players and NGOs, and the fact that many reporting experts are based in the UK.

Individual national frameworks and legislation may lead to different schemes and obligations. Especially in the case of publishing local reports, as well as a global report that summarizes information from the local level, differing disclosure requirements become problematic.

Besides providing for legislation and regulation, governments can (for example) also participate in discussions on the future of reporting and assist developing countries in data collection technologies.

⁵⁵ In Paragraph 3.3.2.3 the results with regard to the use of the GRI Guidelines were presented

Box 4: Swedish Reporting Requirements for State-Owned Companies

In November 2007, the government decided as the first country in the world that state-owned companies should present a sustainability report in accordance with the Global Reporting Initiative (GRI) guidelines. Sustainability reports are to be published in connection with the regular annual reports and are to be audited by a third party. The guidelines have applied from the financial year beginning on 1 January 2008.

According to the Swedish Ministry for Enterprise and Energy all companies bear the responsibility for being a responsible and professional owner, who takes responsibility for matters relating to sustainability issues, but the state-owned companies should set an example, take the initiative and play a leading role. Working with sustainability issues entails long-term, continuous work with the focus on improvement. Expanded and improved reporting is a tool to drive this work forward. The intention of the requirement was to raise the level of ambition for the sustainability work of the state-owned companies, to increase transparency and to be better able to monitor the work of these companies.

In September 2010, the Uppsala University was commissioned to investigate the effects that the government's reporting requirements actually have had on the companies' sustainability work, and why the demands have led to the particular effects. In principle, all state-owned companies presented a sustainability report for 2009 in accordance with the GRI guidelines. The report builds on questionnaires sent to 49 Swedish state-owned companies¹ and interviews with a sample of the companies. The response rate was 76 per cent.

The results in the report show that:

- The report requirements have led to 1) increased commitment and awareness of sustainability issues, 2) more structured work and more structured processes and 3) sustainability issues have risen up the agenda and been given higher priority by managements and boards.
- The introduction of the new guidelines affected the companies to varying degrees. The companies that lacked previous experience of sustainability reporting (65 per cent of the companies had no experience) have gone through a more extensive process of change than those that were already submitting sustainability reports.
- The guidelines contributed mainly to improved procedures for reporting on sustainability issues, rather than bringing about far-reaching changes in sustainability activities in practice.
- The reporting of sustainability issues in the first instance strengthens and improves reporting procedures, whereas the next step – to changes in practice – is a greater one.
- With regard to GRI: the guidelines have in many cases made it easier for companies to define the sustainability process and responsibility. On the other hand, to act in accordance with the guidelines, especially in selecting the relevant GRI indicators, was regarded as difficult in most cases.

(Borglund, Frostenson and Windell 2010)

The report can be downloaded from: <http://www.regeringen.se/sb/d/108/a/152684>

¹ In 2010, Sweden has 57 fully or partially state-owned companies, however, a number of these were excluded from the research. Those companies were either too small, or in the process of closing down their business.

5 Reporting Companies' Perspective on Sustainability Reporting

5.1 Introduction

In this Chapter the perspective of companies with regard to sustainability reports and the process of writing the reports will be discussed. The motivations of companies to publish a sustainability report are discussed, as well as the main obstacles to reporting. Moreover, the reader groups companies try to reach will be discussed, the topics companies report on and the companies' perspective and activities with regard to the major trends in reporting (see Paragraph 2.3). The information in this Chapter is gathered from reporting studies and from interviews with reporting companies and organisations that facilitate companies in reporting.

In Paragraph 5.2, the companies' perspective on sustainability reporting in general is presented, with a brief overview of motivations to (not) report and obstacles in reporting. In Paragraph 5.3, the audiences or reader groups the companies tend to target with their sustainability reports are discussed, followed by the content of reports in Paragraph 5.4. In Paragraph 5.5, the companies and reporting trends are covered. In Paragraph 5.6, the issues and challenges companies face in producing a quality report are discussed, based on the principles of the GRI Guidelines.

5.2 Companies' Perspective in General

5.2.1 Motivations for Sustainability Reporting

In different studies the question has been raised what motivations companies have for sustainability reporting. Paragraph 2.2 already covered some of the motivations of companies to report, based on a 2010 KPMG study. One of these motivations is to comply with regulations in case of (partly) mandatory reporting. In this Paragraph, the main motivations for voluntary reporting are discussed in further detail.

In a 2008 survey of the G250 the most-cited motivations for sustainability reporting were (KPMG 2008: 18):

- Ethical considerations such as good governance, sustainability or human rights.
- Economic considerations including improved economic results through more efficient processes, or as a result of a better reputation and thus increased sales.
- Reputation and brand, where the report is seen as a trigger to improve the image of the company.
- Innovation and learning, such as internal improvement of processes through the compilation and systematisation of ESG information.

Some interesting trends become visible when comparing these results to the results of the same survey that was done three years earlier (in 2005). Ethical considerations and

reputation and brand became much more important, while the relevance of economic considerations decreased, although this still remained the second most important motivation for reporting (KPMG 2008: 18). This increase in ethical considerations could be related to the scandals in accounting, environmental performance and human rights⁵⁶, and the financial crisis, which had a strong impact on the image of businesses with stakeholders. This is recognised by the Edelman Trust Barometer (Edelman et al. 2008) and in EU Workshop No.1 on 'Disclosure of ESG Information', which put strong emphasis on the attainment of a social "license to operate" and the mitigation of criticism from external stakeholders and NGOs. This social license to operate is also reflected by the general trend of companies to actively engage stakeholders in the reporting process. Reputation and brand-related issues have almost doubled as a driver of sustainability reporting, which could indicate that companies increasingly see a direct link between mishandling or negligence of sustainability issues and their reputation and brand value (KPMG 2008: 19). Companies selling to end-users may increase their "marketing value" if reporting leads to an increased recognition by third-parties, e.g. through rankings or increased positive media attention (Eco Strategy 2010: 5).

Reputation as a motivation for sustainability reporting is especially important for MNEs. Due to potentially large environmental and social impacts, multinational enterprises are more exposed to public opinion than SMEs. Moreover, many MNEs work with international supply chains, where labour and environmental standards and human rights issues play an important role, and are therefore exposed to a wider range of CSR issues (WestLB 2007: 19). SMEs in many cases operate locally and communities can often respond to their behaviour on a daily basis. Contact with their stakeholders is more direct and the sustainability report does not have such an impact in the reputation-building process (European Business 2009). The role that clients can play in the starting process for SMEs is shown by the interview with the Portuguese SME *Quintas e Quintas*, in Box 5.

Box 5: SME Reporting Motivations

Key motivation for *Quintas e Quintas*, a Portuguese SME that reports according to GRI, to publish its first sustainability report was the fact that a number of clients started to ask for environmental, social and economic issues and the company realized that they were facing problems when explaining their sustainability performance. While they felt comfortable providing information on environmental issues, they did not do so in relation to social aspects. Therefore it was decided to address sustainability in a more organized and methodical way to improve the company's skills on social issues. Reporting also contributed to the awareness within the company of the steps the company had already taken on a number of social aspects. Moreover, it was felt that working according to GRI, being an international standard, provided the company with a certain reliability and credibility regarding ESG aspects.

(From the interview with *Quintas e Quintas* – Mr Jorge Quintas Serrano)

⁵⁶ The Business and Human Rights Resource Centre documents complaints made against companies on human rights-related grounds, as well as companies' responses: <http://www.business-humanrights.org>

For many companies, the decision to report is connected with a desire to enhance *credibility*. Voluntary reporting is a strategy to achieve more transparency and accountability in the companies' operations, contributing to credibility. This is confirmed by various interviews conducted during the course of the study. One of the large companies interviewed mentioned transparency as being a key driver for reporting, as it is critical to build trust with all stakeholders; and trust creates value. Other motivations for companies to report on corporate social responsibility, mentioned in literature and in the interviews (not exhaustive) are:

- **Time saving / efficiency in communication.** Because companies are often "bombarded by information requests from different stakeholders", they can save the time necessary for answering those requests by publishing a report (UNEP and Sustainability 1998: 7).
- **Attraction and retention of employees.** Transparency about environmental impacts is believed to have a positive impact on employee attraction and retention (Eco Strategy 2010: 6). Fifty-two per cent of all companies view this factor as a key reason for reporting (KPMG 2008: 19).
- **Improvement of internal processes.** Compilation of sustainability information can contribute to improved internal processes. This motivation for reporting was mentioned by some of the MNEs interviewed for this study.
- **Supply chain requirements and supplier relationships** constitute a growing motivation for reporting on CSR issues, especially to SMEs being the suppliers for larger (reporting) companies. Wal-Mart for example requires its suppliers to report to the Carbon Disclosure Project (CDP) (Eco Strategy, 2010: 6). Moreover, 56 per cent of CDP members stated in a recent survey that in the future they would only do business with suppliers that manage their carbon footprints (ibid). Thirty-two per cent of SMEs consider strengthened supplier relationships as a key reason for reporting (KPMG, 2008: 19). An SME interviewed during this study also stated that questions from important clients on social, environmental and economic issues triggered sustainability reporting. For SMEs in developing countries, reporting provides an important way of showing good performance on sustainability issues, thereby improving their competitive position. SMEs in the EU, where sustainability reporting is taking place in a much more regulated arena, tend to look at the obligations to report or not (GRI 2010).
- **Increased pressure to report and stakeholder expectations**, which would be the main motivation for non-reporters to start reporting (UNEP and Sustainability 1998: 10).

5.2.2 Reasons Not to Report

Reasons for companies not to report in most cases relate to the fact that they do not expect much benefit from reporting. Over the years, reasons for not reporting may have changed, as many more companies have started reporting. In 1998 companies mentioned the following reasons not to report: doubts about the advantage of reporting; an already good reputation regarding social and environmental performance and high

costs of reporting (UNEP and Sustainability 1998: 10). Greater clarity and consistency in reporting standards would help encourage non-reporters to start reporting (UNEP and Sustainability 1998: 15) and, according to Edelman, this is still the case (Edelman et al. 2008: 25). However, the obstacles to reporting as perceived by non-reporting companies appear to be higher than the real obstacles to reporting experienced by reporting companies (ibid). This indicates that there is a need for knowledge exchange between reporting and non-reporting companies to bring perceived obstacles closer to reality. Reasons for SMEs not to report are mainly connected to the associated costs of reporting, as will be discussed in the next Paragraph.

5.2.3 Obstacles and Challenges in Reporting

Obstacles for companies to report differ in many ways, for example depending on the type of organisation and motivation for reporting. The most important obstacles, or reasons not to report, derived from literature and interviews are:

- **The definition of key indicators and topics to report on.** Companies have a hard time defining which topics to include in reporting and setting up appropriate stakeholder processes to define the most relevant topics. Especially smaller companies have trouble with data collection and the choice of performance indicators. However, because of the growing number of firms that report, the availability of reporting knowledge and possibilities to learn from others is growing (Kolk 2009: 7). Reporting frameworks such as the GRI also try to solve (part of) this obstacle by defining the issues to report on and the indicators that can be used. However, according to European Association of Craft, Small and Medium-sized Enterprises (UEAPME), in general, frameworks are not very well adapted to the needs of SMEs (UEAPME 2010).
- **The sensitivity of some of the information that needs to be provided,** either in relation to competitors or because of legal implications. Especially when competitors are not reporting, companies hesitate providing sensitive information (Kolk 2010). Companies believe that the information provided could damage the reputation of the firm, have legal implications or wake up 'sleeping dogs' (ibid).
- **Non-financial information is not valued or considered as irrelevant.** Companies believe that their most important stakeholders, especially investors, often do not value this information or consider it as irrelevant (WestLB 2007). Research by CSR Europe found that there is a lack of confidence of senior executives that their companies are able to manage non-financial performance and are therefore worried about the credibility of ESG data. Additionally they worry about conveying data that are not directly linked to the core financial performance and might therefore be rated as irrelevant by investors. However, at the same time they feel that investors would rate their company better, if they better understood the non-financial performance of the company (CSR Europe 2008). Moreover, companies believe that customers (and the public) are not interested, hence it will not increase sales (Kolk 2010).

- **The associated costs of reporting.** Especially for first-time reporters and smaller companies, sustainability reporting may incur considerable costs for data compilation, the management of the reporting procedure, the data assurance and the publication of results. Especially for SMEs, these costs may be too high. However, other ways of disclosure on CSR and sustainability issues might do the job as well. To them, important cost drivers are: capacity building on how to write a report, the use of experienced external consultants (or the internal publication of a number of reports, before going public), external assurance to increase credibility and outsourcing of the production of the report. At the same time, as was mentioned in interviews for this study, a lot of information may already be available in (for example) environmental management systems and workplace policies. In this case, data compilation may be a matter of rearranging, interpreting and putting together the right information (Nazar 2010). Also, according to GRI there is a “myth” around the concerns that sustainability reporting represents a major obstacle or is too complex to achieve for SMEs (GRI 2010). Moreover, the Spanish GC Network also feels that their experience with SMEs reporting online could be of help to other SMEs (Garro 2010).
- **Ignorance or lack of knowledge about reporting** and difficulties with linking CSR performance to the needs of stakeholders and investors (Arnold 2008: 1). While the company's shareholders focus on business results, investors are interested in materiality and society wants to be informed about externalities. This complexity is demanding and difficult to manage (WestLB 2007: 9).
- **Internal organisational structures.** The development of a sustainability report touches upon a number of different departments. Sustainability reporting has its limitations when it is confined to a single department within the company. In many cases, the sustainability report is being prepared by the CSR or communications department and it would take a lot of additional effort to involve all relevant departments and employees (Edelman et al. 2008: 28).
- **To continue reporting.** For SMEs, the biggest challenge is not to report for the first time, but to continue reporting in the future (GRI 2010). SMEs need encouragement and support from buying multinationals and need to know that what they report on has an impact on buyers and other readers of the reports.

5.3 Companies' Preferences on the Way of Reporting

With regard to the preferred frequency to publish sustainability reports, companies in general prefer to publish their report once a year or once every two years, together with the annual report, or integrated in the annual report. Many companies complement the information from the sustainability report with web-based approaches to launch or update additional background information, examples and relevant facts and figures (KPMG 2008: 39). The website then provides the possibility to update the information on a more frequent basis (see also Paragraph 5.6.1 Online reporting).

The decision on what geographical or aggregation level a company wants to report (global, regional or local) depends on the size, sector and specific activities of the

company. Many global companies prefer to publish a global report with specified information at local level in country reports. For other companies it might be too complex to publish a global report as the differences at regional or local level are too big to combine the information in one report. Companies that want to serve local stakeholders will prefer local reports. An advantage of local reports is that the company itself can also compare the different locations. The example in Box 6 concerns the way in which Nestlé S.A., headquartered in Switzerland and the largest consumer packaged goods company in the world, deals with global and local information and communication.

Box 6: Global Versus Local Reporting

Nestlé is publishing one global report, as well as a number of individual reports adapted to the needs of different markets. Due to the size of the company it is not possible to clear all reports at headquarters. Companies are encouraged to follow global standards and directions and to adapt them to local needs and conditions. Local reporting is seen as necessary to increase relevance for local customers and other local stakeholders and to provide more information on the local impacts in a specific country.

At the global level, the sustainability report serves as the main vehicle for communication of CSR related activities and impacts. Starting this year, the company does not use a printed sustainability report as the only way of communicating anymore. There is still a summary of the sustainability report attached to the annual report, however the major focus is on adapted information on the website, as well as on a second website, which addresses people interested in creating shared value by using the website in an interactive way (through forums, blogs, discussion sessions etc.).

(From the interview with Nestlé – Ms Hilary Parsons)

5.4 Companies' Audience of Reports

Companies may face difficulties when targeting different reader groups with one sustainability report. A company has to address various external stakeholders (civil society, investors, consumers etc.) and internal stakeholders (such as employees and shareholders) at the same time. The company's choice of target groups may depend on the sector, the motivation for reporting, the interests of the company and its strategic focus (UNEP and KPMG 2006: 55). Depending on the stakeholders targeted, in some situations "the boundary between marketing and sustainability reporting is not always clear" (EU Workshop No.1 on Disclosure of ESG Information 2009: 1). With regard to external stakeholders, according to the European Combined Reporting Alliance sustainability reports in general are intended to be read by civil society stakeholders such as customers and activist organisations. Companies mainly address their reports to them to receive a social "license to operate" (Effas et al. 2010). However, since civil society is composed of a number of very different types of organisations and individuals, such as NGOs with very different aims and missions, (buying) customers, media and journalists, all with different objectives and interests, companies may address them in different ways and for different reasons. With regard to internal stakeholders, companies are increasingly aware of the rising influence of SRI analysts and fund managers asking for details on social and environmental performance and have learned to feed the analysts with information they hope will strengthen their stock (Edelman et al. 2008: 18). Furthermore, companies are engaged in dialogue with

employees, especially on issues like diversity, labour relations and human rights. For this reason, employees and socially responsible investors have emerged as key audiences (Edelman et al. 2008). According to the European Trade Union Institute (ETUI), sustainability reporting (together with employee representatives) is in some cases used as an opportunity to reflect on the extent to which a company is being a “good” employer and corporate citizen. However, the ETUI also recognizes that in other cases employees are largely excluded from the process and sustainability reporting appears mainly to be a public relations activity (Vitols 2009).

From interviews with some large consumer goods manufacturers it appears that consumers are not always their first target group, as these companies see other ways of communication as more appropriate to reach out to consumers. Even though these companies do have a high motivation for reporting out of branding and public relations considerations, their target audiences for their sustainability reports are more likely to be shareholders and competitors than consumers. This is supported by the outcomes of the 2008 study by KPMG and SustainAbility on readers’ choices where companies are indicated as “the business readers” as they form an important reader group as well: companies tend to follow the leaders in sustainability reporting when improving their sustainability reports. They see peer pressure as a driver for the disclosure of sustainability information (KPMG and SustainAbility 2008).

5.5 Content and Topics Companies Choose to Report On

5.5.1 Choosing Content of Reports

Content and key metrics of sustainability reports differ depending on the sector, the size of the company and the priorities of the CSR strategy of a company. Also the structure and features of the report differ depending on the reporting strategy chosen: reporting as a risk-avoidance strategy, reporting describing a business case, reporting based on decision-usefulness or reporting on the basis of the “community right-to-know” principle (UNEP and KPMG 2006: 56). However, critics of sustainability reporting are not so sceptical about the different types or formats of reports, they are more sceptical about the content and its quality. It is therefore a – if not *the* – challenge for the reporting companies to put together a sustainability report that reflects all issues of importance both to the enterprise and its stakeholders and that is still easy to read for the wide variety of readers with very different needs and interests (KPMG 2008: 39). As shown in a study of 2008, with the G250 companies as a basis, 55 per cent of the companies take their own sustainability and corporate responsibility strategy as a basis for choosing the content of their reports. This is only topped by the GRI Guidelines with 59 per cent. Thirty-four per cent of companies indicate that they define the content of their reports based on the feedback of their stakeholders⁵⁷ (KPMG 2008, 38). Of the 77 per cent of G250 companies using the GRI Guidelines, around 50 per cent use the

⁵⁷ In the survey respondents could choose for more than one option on which to define content

economic, environmental and social performance indicators⁵⁸ as a starting point for defining content, while only a third bases its content on the GRI principles (principles for defining content and quality)⁵⁹ (ibid). This means that while companies might use the GRI indicators to decide what to report upon, they do not necessarily give attention to the reporting principles for their reports. However, the content of the report is not only defined by the topics presented and the indicators used, but also by considerations regarding openness, the involvement of stakeholders, completeness of the information provided etc. These are typical considerations covered by the GRI reporting principles. Box 7 and 8 describe the examples of Coca-Cola and Telefónica (from Spain) choosing the content of their sustainability report.

Box 7: Defining Content - 1

For Coca-Cola, the internationally well-known beverage company with a big number of subsidiaries and franchise takers all over the world, the development of the first European Environmental Review that included information on environmental impacts from all European activities has been a big challenge. It took over a year to collect all the data and to define a methodology on how to process these data, before the information was finally published. The development of the methodology took place in close cooperation with renowned NGOs and research organisations to guarantee a stringent measurement of the most important environmental impacts in the area of water stewardship, energy management and climate protection and sustainable packaging. However, the major reason for putting together the environmental review was internal, and the decision to publish the data was taken to improve the credibility of the exercise. More information on Coca Cola's environmental review can be found through: <http://www.cocacolabelgium.be/doc/environment.pdf>

(From the interview with Coca-Cola – Mr Nicolaus Tacke)

⁵⁸ With more than 30 economic, environmental or social performance indicators companies can choose the topics they want to report on.

⁵⁹ Principles for defining content are stakeholder inclusiveness, completeness, sustainability context and materiality. Principles for defining quality are balance, comparability, accuracy, timeliness, clarity and reliability.

Box 8: Defining Content - 2

For the Spanish multi-national ICT company Telefónica, which has the objective to be a leader in sustainability reporting, streamlining of CSR information is key. The company publishes a global report, as well as local reports for their major markets. The content of the different reports is adapted through a global, sectoral and local analysis of materiality. The global issues are covered by using Global Compact Principles and GRI indicators. The sectoral information is submitted through sectoral indicators such as the ones provided by GESI (Gender Equality/Social Inclusion*). The local information is covered through local indicators. Country reports are 100 per cent streamlined. They use the same structure and indicators (GRI and A1000) and are verified by the same external body. Headquarters reviews all information and directs the work of the countries. With this strategy, it can provide local stakeholders with facts and figures adapted to their local reality, while at the same time being able to compare performance indicators between the different locations.

(From the interview with Telefónica – Mr Eduardo Serra)

*For more information on GESI visit:

<http://www.cconepal.org.np/uploads/publications/files/Gender%20Tool%20Kit%20-%20English.pdf>

5.5.2 Choosing Main Topics

Sustainability reporting started with the reporting on environmental issues. Over time, the number of topics increased and now sustainability reporting is broadly referred to as Environmental, Social and Governance (ESG) reporting. Topics that companies generally report on are environmental factors like energy use, greenhouse gas emissions and impact on the ecosystem; social factors like poverty and community impact, supply chain management and employees; and governance factors such as codes of conduct, accountability and transparency (WBCSD and UNEP FI 2010: 18). The 10 Global Compact Principles also form a basis for main topics to report on, especially for those companies that are a member of the UNGC and have to provide a Communication on Progress. The principles represent four main areas of sustainability: human rights, labour standards, environment and anti-corruption.

According to the results of the KPMG study on Sustainability reporting, climate change is currently one of the most popular themes in sustainability reporting, since it ranks high in public opinion. More than 60 per cent of all MNEs report on new business challenges and opportunities associated with climate change. Almost half of all G250 companies disclose the carbon footprint for its own operations, as an important metric for measuring its impacts (KPMG 2008: 41). This trend is confirmed by a recent study from the Danish Commerce and Company Agency. In 2009, environment and climate change were the topics Danish companies reported on most, followed by social conditions at Danish workplaces (Danish Commerce and Company Agency 2010: 11).

With regard to social issues, human rights are a topic that is gaining importance in the CSR debate and it has been named as one of the major reasons for reporting during EU Workshop No.1. Improving corporate human rights-related reporting has been listed as one of the top business and human rights issues for 2011 by the Institute for

Human Rights and Business⁶⁰. However, according to an analysis of current trends on corporate human rights reporting, the quality “still falls far short when measured in relation to certain key principles and elements of good human rights reporting, including those defined by the GRI G3 Guidelines” (GRI and The Global Compact 2009: 1). Companies face a number of challenges when reporting on human rights issues. The area of human rights has its own set of unique challenges (GRI 2009: 9). For companies it can be difficult to determine the scope (range of topics covered) of human rights reporting; it can be difficult to determine how their activities affect human rights directly, through their actions, inactions, operations, products and services, and indirectly through other entities. In those situations where other parties are associated with abuses, the company can (partly) be held responsible for its actions. However, reporting on human rights issues is still a developing field (ibid: 5). In the Special representative’s Corporate Law Project⁶¹, which involved over 20 leading corporate law firms looking at reporting rules amongst others, it was concluded that while human rights issues may reach the level of material impacts under financial reporting and therefore may need to be reported to avoid penalties under corporate and securities laws, regulations provide very little guidance on how to determine whether and when human rights impacts will meet this threshold (Ruggie 2010: 9).

With regard to corporate governance, 68 per cent of the G250 companies include a public governance section in their report. Publicly owned companies are more likely to include good governance into their reporting than privately owned ones. More than 90 per cent of all companies disclose a code of ethics or conduct, as well as a code of conduct for their supply chain. However, only around half of them discuss problems of compliance or how the codes of conducts are implemented and monitored (KPMG 2008: 41).

5.6 Companies’ Involvement in Major Reporting Trends

5.6.1 Online Reporting

As presented in Chapter 2, the most common way of publishing a sustainability report still is the hard copy with its subsequent PDF version. In addition to the printed report, many companies complement the information of the sustainability report with web-based approaches and even link the printed or PDF versions of their sustainability reports to their websites, to make printed versions easier to understand and digestible for a broad range of stakeholders. Companies use web-based approaches to launch or update additional background information, examples, and relevant facts and figures (KPMG 2008: 39). The website also provides the possibility to update the information on a more frequent basis, since reports are generally published in annual or bi-annual

⁶⁰ See issue number 10 at: http://www.institutehrb.org/top10/business_human_rights_issues/2011.html

⁶¹ See <http://www.business-humanrights.org/SpecialRepPortal/Home/CorporateLawTools>

cycles (Business and Society 2010). Furthermore, web-reporting is used for a better interaction with stakeholders and online feedback forms have become common practice (IÖW and future 2009: 11). For example, web-based reporting is used to customize the sustainability information to different stakeholder groups and needs (CSR Europe 2009) and for the improvement of responsiveness to stakeholder issues and recommendations (Edelman et al. 2008: 24). Good examples of these trends are shown by companies that ask stakeholders about their preferred reporting format and companies that allow the user to access the sustainability report in various formats, such as PDF, raw Excel data or an online version with interactive charts and other multimedia features (CSR Europe 2009: 6).

Most of the companies interviewed in the course of this study publish the sustainability report on the website and additionally provide a summary brochure, as well as detailed information on either the different material issues or the different stakeholder groups. A new trend is the use of other interactive social media, such as Twitter, blogs etc. to address stakeholders and customize information, which was mentioned by two companies in the interviews.

5.6.2 (External) Assurance

Based on case studies and interviews conducted, most companies (verify and) assure their reports to increase credibility, to assess quality, to stimulate continuous improvement, to show responsibility, to hear opinions, “to enhance the credibility of reported data and to continuously improve environmental management”, and “to not only increase credibility with external partners, but also to protect quality standards internally” (Kolk 2008: 10).

Following the interviews with AccountAbility – an international organisation providing solutions to the most critical challenges in corporate responsibility and sustainable development – and others, accountability is key to be able to write a good report, see also Box 9. For most of the reporting companies interviewed, it is very important to independently assure all information that is published in the sustainability report to increase credibility: “I realize that when I read sustainability reports that are not externally assured, I do not necessarily believe what they say”, was one of the reactions heard.

Box 9: Accountability and Assurance

According to AccountAbility, there are three different sets of reporting principles, serving different purposes that can help companies drive accountability: 1) integrated thinking, which can be driven by using the AccountAbility AA 1000 APS principles of inclusivity, responsiveness and materiality; 2) principles for information reliability and quality, which help to drive the quality of the information, such as clarity, balance or reliability; and 3) principles defining commitment or performance levels for specific matters, such as principles for human rights or ILO Standards.

Additionally, assurance is absolutely essential, since it establishes credibility and builds trust. The latter is not possible without independent, third party evaluation of the information. “As we move towards integrated reporting, one of the big challenges will be how auditing and assurance can be integrated”.

(From the interview with AccountAbility – Mr Alan Knight)

An important and not yet resolved question is what should be the object of assurance: the sustainability report itself or the company's sustainability performance? Furthermore, questions are raised whether assurance should be a requirement, who should conduct the assurance process and what should be the criteria for conducting an audit? While most companies rely on international accounting firms and their criteria for standardizing and assuring sustainability reports, there are also companies that conduct the assurance process through the integration of their stakeholders (Brown. 2008: 4). An example mentioned in an interview shows how two ways of assuring information can be used at the same time: CO₂ emissions are audited rigorously, on the same level as the financial data, while for other issues a stakeholder panel questions what is being reported. Based on this panel, a letter is published highlighting the strengths and weaknesses of the report.

5.6.3 Stakeholder Engagement

Companies now grasp the business case for effective stakeholder engagement and are working hard to improve communication lines — whether this is done through direct stakeholder contact, new web-based sustainability reporting as described in the previous paragraph, or other channels that allow for greater responsiveness to stakeholder issues and recommendations. One of the reasons for this is to mitigate criticism from external stakeholders and NGOs (Edelman et al. 2008). According to Edelman, leading companies are also increasingly engaging in dialogue with their employees, leading to positive changes on issues such as diversity, labour relations and human rights. Furthermore, socially responsible investors are increasingly targeted by companies as stakeholder in the sustainability reporting process (Edelman et al. 2008). According to the 2010 GRI Survey, a small majority of reporting organisations consider sustainability reports to be the best starting point for sincere engagement with stakeholders. Other companies argue that the sustainability report is *not* intended for the continuous contact with stakeholders, as other means serve that purpose.

Box 10 gives a description of how Solvay, an chemical company situated in Belgium operating in more than 50 countries, which sees itself as a non-marketing organisation, focuses on stakeholders in the process of writing the sustainability report.

Box 10: Engaging Stakeholders

Solvay argues that the focus on stakeholders is the most important aspect related to sustainability reporting. Different stakeholders are interested in different aspects of sustainability and the clustering according to stakeholder groups makes it easier for them to find relevant information. Therefore, all sustainability reporting is developed around the interests and needs of stakeholders. Integration of stakeholders is based on a process of continuous improvement, and a more formal and precise approach on how to define the needs of different stakeholders is currently under development. The integration of statements from different stakeholders in the sustainability report is seen as a very positive experience from both sides and is considered as positive for the future.

One of the major challenges related to this approach is the fact that there are stakeholder groups that are interested in different topics, which is why it has been decided to additionally provide an overview on key sustainability topics material to the company and to provide all sustainability-related information in two dimensions: 1) thematic domains, based on ISO 26000 and GRI; and 2) stakeholders.

(Taken from the interview with Solvay – Mr Michel Bande)

5.6.4 Integrated Reporting

To further advance the discussion on the integration of sustainability and financial reports, a number of open questions, such as the balance between non-financial and financial information, the amount of information on CSR to be published in an integrated report or the question of external assurance, will have to be solved (CSR 2010: 5). Whereas for instance stand-alone sustainability reports tend to be quite extensive, combined with annual reports they could come along as a mere executive summary with reference to a more extensive web-based sustainability reporting (Arnold 2008: 26).

The discussion on and development towards integrated reports is accompanied by customisation of sustainability information and sustainability reports to different stakeholder needs and a trend towards innovative formats of sustainability reporting (CSR Europe 2009). As has been stated in different interviews with experts, the key challenge is not the production of one report, but the integration of sustainability into the core business activities. While an integrated report can have added value when sustainability data are measured with the same rigour as the financial data, integrating sustainability in the core business activities will not be possible if the integrated report does not include integrated thinking.

Box 11 shows how DONG Energy, a state-owned energy company based in Denmark, handles the integration and assurance of financial and sustainability information.

Box 11: Integration and Assurance of Financial and Sustainability Information

DONG Energy sees the integration of financial and sustainability data and their respective assurance as a challenge. One of the biggest concerns about integrated reporting is that important elements of sustainability reporting will be subordinated to the financial reporting. The challenge lies in the maturity of the two. Financial reporting is well established with clear guidelines, but CSR information needs to be defined just as well. In other words, what integrated sustainability reporting does not mean is that sustainability information is simply “combined” to financial information in an annual report! As investors and other stakeholders increasingly look at sustainability reports for information pertaining to the success of a company, investors and other stakeholders should direct their attention to integrated reporting (i.e. reporting that reflects most accurately a holistic picture of the company’s benefits, negative impacts and risks).

Challenges to achieving the goal include content and assurance aspects. Many of the challenges with regard to the content of reports are likely to remain the same as current challenges (such as materiality and comparability), but are likely to be emphasised because of the need to streamline the length and focus of an integrated report. In terms of assurance, there is ever increasing emphasis on verifying the accuracy and completeness of the statements and figures presented by companies – and some of the sustainability information is difficult to assure. Future (integrated) reporting will require improvements to both the method and models for assurance. In this regard, the assurance by GRI, as well as linking existing international assurance systems for collecting financial and non-financial data, can help a lot. In 2008, the company started as one of the first integrating its data systems (covering financial and non-financial data), which – over time – will help getting a realistic overview on the performance of the company.

Overall, starting the process of integration is seen as adding value both in terms of improved external communication, but also to the internal processes of the company, since there is more need for the different departments to coordinate and cooperate to define the content of the annual report. Thus, networking has improved a lot as a consequence of integrated reporting.

(From the interview with DONG Energy – Ms Christina Jacobsen)

5.7 In Brief

Motivations to report vary among companies. Ethical considerations, reputation and brand value have become more important, while the relevance of economic considerations decreased, although this still remains the second most important motivation for reporting. Reputation as a motivation for sustainability reporting is especially important for MNEs, due to potentially large environmental and social impacts and the involvement in international supply chains where labour issues, environmental issues and human rights issues play an important role. Reasons for companies not to report in most cases relate to the fact that they do not expect much benefit from reporting. Reasons for SMEs not to report are mainly related to the associated costs of reporting. Challenges with regard to reporting include the selection of topics to report on, the sensitivity of information and the (perceived) costs of data collection.

Companies prefer to report annually or bi-annually, while the choice of geographical or aggregation level depends on company size, sector and the specific activities of the company.

A company has to address various external stakeholders (civil society, investors, consumers etc.) and internal stakeholders (such as employees and shareholders) at the same time. The company's choice of target groups may depend on the sector, the motivation for reporting, the interests of the company and its strategic focus. A key challenge for reporting companies is to put together a sustainability report that reflects all issues of importance both to the enterprise and its stakeholders and that is still easy to read for the wide variety of readers with very different needs and interests. The GRI guidelines constitute an important reference for decisions on the content of reports. One of the major innovations in the third generation of the GRI Sustainability Reporting Guidelines (G3) was the identification of principles that define report content and associated tests. Within these principles for defining content, a principle of materiality was introduced. Disclosure of carbon emissions is a key topic in reporting, while reporting on human rights is relatively new but of growing importance. Online reporting is becoming common practice offering an opportunity to provide additional information, to tailor information to the target group and to enable stakeholder feedback. External verification is growing in numbers, as is stakeholder engagement and integrated reporting.

6 Readers' Perspectives on Sustainability Reporting

6.1 Introduction

Corporate sustainability reports are targeted at and used by a wide variety of readers. These readers can be directly involved in the business activities of the reporting company, for example as shareholders or employees, or can be external interested parties, such as environmental or human rights-oriented NGOs, consumer organisations, trade unions or individual consumers. Each of these reader groups has its own ideas about the way a company should report and about the minimum content of the report. The perspectives of readers with respect to sustainability reports are therefore far from homogenous and are strongly influenced by the reader's specific interests, his relation with the company and the way he or she wants to make use of the information provided. Readers' perspectives are, by definition, not objective, and the information compiled in this Chapter therefore describes a range of different perspectives and opinions of important reader groups about the way companies should report and the desired content. The information in the Chapter is based partially on the outcomes of the 'EU Workshops on Disclosure of ESG Information', in which interests and perspectives of different reader groups were discussed. For that reason the Workshops are often cited. However, as these Workshops do not necessarily represent opinions of stakeholder groups as a whole, the views expressed during the workshops are combined with the results of interviews conducted with different reader groups and information from other studies. From some of the groups or sub-groups little information is available: only little research has been done on their preferences and behaviour with regard to sustainability reporting, and studies are often restricted to a specific target group, and based on interviews with a limited number of representatives of the group.

In Paragraph 6.2, the perspective of readers regarding sustainability reports in general is presented, discussing their general motivations, needs and expectations with regard to reporting. This includes observations regarding the reason why readers think companies should report, how reports are being used, the type and content of reports readers prefer, information which readers think is missing and readers' expectations for the future of reporting. Paragraph 6.3 deals with the specific interests in reports of the three most important reader groups (investors, civil society and trade unions/employees) and their opinions on the quality of reports. In Paragraph 6.4, the perspectives of readers on the major trends and developments in sustainability reporting are presented.

6.2 The Perspective of Readers in General

6.2.1 Why Readers Actually Read Sustainability Reports

The 2008 KPMG and SustainAbility study on the perspective of readers indicates a distinction, among others, between readers that are mainly interested in the narrative parts of reports (including policy statements, descriptions of management approaches, of specific developments and challenges the company faces), and those more interested in the numerical data a reporter might provide (emission figures, number of incidents, financial indicators) (KPMG and SustainAbility 2008: 11). This study, which was based on the readers' survey accompanying the GRI Readers' Choice Awards 2008 (see also Chapter 3), together with the factsheet on the results of the 2010 survey⁶², are in fact the only in-depth studies in this field recently undertaken.

In general, readers make use of the reports to improve their own understanding of specific sustainability issues related to the company. Reports are also consulted by other companies, competitors and investors, who use the reports to learn about better practices they might apply in their own business and to obtain as much information as possible for their investment decisions. They use reports mainly for benchmarking their own and others' performance (KPMG and SustainAbility 2008). Readers from civil society groups are less interested in this benchmarking (30 per cent) but use the information for research and education (50 per cent). Some 40 per cent of these civil society readers are interested in the performance of the reporting company and its accountability towards society (KPMG and SustainAbility 2008: 8).

At the same time, there is also a group of so-called "non-readers": persons or organisations which, according to the same study, apparently have similar information needs as the above mentioned readers, but who manifest strong reasons for not reading companies' sustainability reports. They do not agree with the way reporting takes place or do not see the added value. For reporting companies it can be of interest to understand their reasons, in order to improve. The most important reasons of the non-readers⁶³ are listed below (KPMG and Sustainability 2008):

- A general lack of interest in the issues covered.
- A high degree of mistrust of the company's intentions and lack of reliability of the reports.
- Reports are often hard to find, too lengthy or difficult to navigate through.
- More direct means of communication with companies are preferred to obtain the required information.

⁶² From the GRI Readers' Choice Awards 2010 a Survey Factsheet has already been published, highlighting a selection of the main findings. In the fall of 2010, this Factsheet will be joined by a Survey Report, providing an in depth analysis of the opinion and characteristics of today's readers and reporters. For more information visit: www.globalreporting.org/NewsEventsPress/ReadersChoiceAwards/

⁶³ In the KPMG & Sustainability study a group of 450 respondents of the 2300 readers and non-readers answering the survey questions provided insight in the profile and motivations of the non-readers (KPMG and SustainAbility 2008: 3).

- Important general company statements with regard to good policies and issues (for example, animal testing or the use of GMOs) are often not included in the reports, but disclosed on the website of the company, which therefore are preferred sources of information. This argument was also heard in the interviews and also found by others through research: sustainability reports sometimes stay behind other sources of information like corporate websites (and third party sources, e.g. NGOs) (Edelman et al. 2008: 13).

6.2.2 Content of Reports as Desired by Readers

A study carried out by Edelman and partners in 2007⁶⁴ reveals, not surprisingly, that readers find environmental, social and governance issues most relevant elements. The study indicates a stakeholders' preference for the following eight issues to be covered by global company sustainability reports (in order of priority), where they expect companies to take the initiative on these issues, even if they do not relate directly to a company's core business (Edelman et al. 2008: 15):

- Poverty alleviation.
- Human rights.
- Climate change/global warming.
- Security.
- Natural disasters (e.g. earthquakes and hurricanes).
- The AIDS epidemic.
- Immigration.
- Pandemic flu (e.g. bird flu).

Other important issues to be included in the reports mentioned are the 'water footprint' (indicating a company's direct and indirect water use) and 'corruption risk'.

Companies should report on all material issues, depending on their sector and activities. According to the KPMG and SustainAbility study, readers also want companies to report on their failures and want them to provide a good description of sustainability impact, risks and opportunities. Almost 25 per cent of the respondents in the KPMG and SustainAbility study indicate that the most important element that is often not sufficiently detailed in the reports is company failures. Other missing or not complete elements mentioned by the readers are the overall sustainability impact of the company, and a good description of risks and opportunities (KPMG and SustainAbility 2008: 12). The interviews with the different reader groups reflect the same views. Important differences are observed by most interviewed readers between the reporting quality of large companies and SMEs. One explanation for this could be that large companies may have a professional division dealing with reporting, while SMEs lack the time and financial resources to report. Europe is seen by the readers interviewed as the most advanced in quality reporting.

⁶⁴ In 2007, as part of the Edelman Trust Barometer 3,100 individuals from around the world were surveyed. The 2008 report by Edelman and partners on Corporate Responsibility & Sustainability Communications: 'Who's Listening? Who's Leading? What Matters Most?' was based on this survey.

6.2.3 Readers' Preference on Ways of Reporting

For the readers in the KPMG and SustainAbility study, most relevant issues with regard to the way of reporting are the frequency and the global or regional level in which the reports are being presented (KPMG, 2008: 17). Regarding the global or country level of reporting, the majority of professional readers use various reports of companies in different industrial sectors. The current practice of larger companies to issue global or corporate reports is in line with most of the readers' demands. However, more than 50 per cent of the readers value reading additional country-level reports as well (ibid). From the interviews it can also be concluded that global reporting is often considered too general. Local features are considered important to be able to assess real impacts. Global sustainability policies by headquarters do not necessarily guarantee adequate local implementation and enforcement. Moreover, the relevance and context of the data provided is considered very important: data on for example emissions to the environment may have a different meaning depending on the exact location; this limits the value of global data.

Regarding the frequency of publishing reports many companies report on sustainability on an annual basis, which enables them to integrate the issue with the annual financial report. The majority of readers perceive this to be the appropriate reporting frequency. About 12 per cent of readers however would wish to receive a sustainability report more frequently and a minority prefers ad-hoc reporting, whenever a relevant issue appears (KPMG 2008: 17). The interviews reflect the same opinions. Many professional users of sustainability reports prefer integrated reporting, together with the yearly financial report. Especially the higher involvement of management in an integrated report is said to be an important added value. In addition, some interviewees prefer to combine this yearly reporting with a continuously updated alert system on the Internet, where relevant instant news on sustainability issues is revealed. For obvious reasons, especially the media have a strong preference for continuously updated CSR news on the Web.

6.2.4 How Readers Make Use of Sustainability Reports

Publishing a sustainability report has a strong impact on readers' perceptions of a reporting company. Ninety per cent of readers in the 2008 KPMG and SustainAbility survey said their views of a reporting company had been influenced by the sustainability report, of which 85 per cent (which is almost 80 per cent of all readers) in a positive sense. Of all readers 20 per cent was influenced negatively (KPMG and SustainAbility 2008: 10).

Readers groups' actions resulting from sustainability reports may vary substantially. Consultants and researchers/academics were found to use the information directly to decide on purchasing materials or services from the reporting company, while investors and their analysts use the information for decisions on selling or buying shares. Civil society groups use reports for decision making in the context of opening dialogue (70 per cent) and to enter partnerships (55 per cent) or take public action (50 per cent) (KPMG, 2008: 9). Job applicants might use the information to decide whether they

want work for the company or not. However, direct action is not a frequent result of reporting; it is more likely to influence the reputation or even brand value of the organisation (ibid).

The interviews also show that users have very different reasons for reading sustainability reports. Professional investors look for any additional information about the company's financial value and due diligence. Media look for news issues to inform society. NGOs look for issues specifically related to their core interests, human rights, environment, consumer safety etc. Some NGOs look for partnerships with companies. Some users may also look for general developments in the field of technology and investors and competitors may look for opportunities to benchmark themselves in order to stay tuned with developments in the sector.

An important statement made by most of the interviewed readers is that reporting should not become a goal in itself. The real performance of a company is what CSR is all about; the report is merely one of the tools to monitor this and to disseminate information. This information can also be made available through other sources of information like inspection reports, environmental emission data or other sources.

6.2.5 Readers' Expectations of Future Reporting

Readers expect that in the future more and also more active readers will use reports for their active decision-making. Their views on what reporting might look like in the future according to KPMG and SustainAbility (2008) are summarised below:

- Sustainability and innovation will be linked in reports, demonstrating how process and product innovation have been used to respond to sustainability needs.
- Trust and reliability will be addressed through globally accepted standards and stronger, more relevant assurance processes, to build comparability and trust through reporting.
- Sustainability reports will be fully integrated into annual reports and other corporate communications.
- Companies making integrated reports tend to make innovative use of Internet and social media.

According to readers in general, the best measures for promoting better and more widespread disclosure of sustainability performance indicators include (KPMG, 2008):

- A stronger legal framework for disclosure. Sustainability reporting needs to be put on the same level as financial reporting. The current requirements are not well specified or enforceable and companies are not disclosing all the information that is needed. EU law is expected to clearly state an obligation for sustainability reporting as well as the basis for this reporting (e.g. adoption of standards developed through a multi-stakeholder organisation).
- Key stakeholders must be involved in the development of sustainability reporting standards at the multinational level (multi-stakeholder organisation with democratic internal procedures) as well as at the company level

(development and improvement of sustainability reporting systems, negotiation of sustainability improvement goals and strategies etc.).

- External verification of sustainability reporting must be required, to improve the credibility of sustainability information provided.
- Due to the costs of reporting for SMEs, reporting requirements should initially be differentiated according to the size of the entity.
- Reporting standards on content and indicators should be defined at the international level with the goal of having all companies adopting these standards, with the GRI providing a good example here for internationally-defined standards and the Global Compact as a good example of a source for content. Although sustainability information can be sector specific or relevant to all sectors, some common indicators across all sectors could be identified according to the readers:
 - Corporate Governance;
 - Proportion of independent members on the board of directors;
 - Level of information on directors' remuneration;
 - Percentage of employee stock ownership;
 - Gender equality (percentage of women in workforce, in management and in executive committee);
 - CO₂ emissions;
 - Safety in the work place (e.g. frequency rate of accidents);
 - Waste management (production of (hazardous) waste).

6.3 The Perspective of Specific Reader Groups

6.3.1 Investors

6.3.1.1 Motivations for Investors to Read Sustainability Reports

As was recognized in EU Workshop No. 2, it is important to realise that the investment community is a very heterogeneous group. Different types of investors with their own particular views on the use of sustainability information can be distinguished. For example: asset owners, asset managers, private equity funds, financial companies (including banks; with their own sustainability activities), (share) traders, insurance companies, (financial) analysts (often being representatives of investing parties) and state pension funds. Since each of these groups uses the sustainability information in its own way, the requirements with respect to the content and quality of the reports also differ substantially. Furthermore, there are differences between mainstream investors and investors active in SRI (Socially Responsible Investments), leading to differences in behaviour and motivations for reading sustainability reports.

In this study, an investor is defined as a commercial organisation (or analyst representative of this organisation) investing in another commercial organisation or project, with the purpose of making profit, and thus taking a certain risk. Roughly, investor readers can be divided into three sub-groups, based on that risk level: 1) shareholders and equity funds (high-risk); 2) pension funds and insurance companies (medium risk); and 3) financial institutions/banks (low-risk). The level of risk directly

influences the interest of the investor in non-financial information. Most shareholders are taking an increasingly short-term approach towards investing (average holding periods of shares by institutional investors are now less than one year) (Vitols 2009: 1). Non-financial or sustainability information is in many cases linked to long-term issues. One might argue that shareholders are therefore probably less interested in information presented by sustainability reports, while financial institutions and banks (low-risk investors) could be much more interested in information presented in sustainability reports. In 2009, about 20 per cent of the investment funds in the EU had some sustainability component among their criteria. However, those using the sustainability information as a primary condition of investment may represent only two per cent of the market (EU Workshop No.2 2009: 2). Altogether, the use of sustainability reports by investors may be limited as they prefer to read questionnaires from analysts⁶⁵ and valuation models. Similar to the obstacles that were already presented in Box 1 on the Laboratory on “Corporate Responsibility and Market Valuation of Financial and Non-financial Performance”, some specific reasons for the limited use of sustainability reports by investors were observed (EU Workshop No.2 2009:4):

- Investors value the (future) management of sustainability over the disclosure of sustainability. Questions asked by analysts tend to be forward looking, rather than focus on past performance, which is what sustainability reports mainly present.
- Investors prefer reports based on figures and numbers. Most investors would only be looking to maximize financial returns, and have no intrinsic interest in sustainability information, even when investing in industries such as renewable energy.
- Some financial analysts argue that they do not have the time to look beyond information that is immediately relevant for the financial impacts.

On the other hand, incidents like the recent accident with BP in the Mexican Gulf may lead to an increase of the number of investors reading sustainability reports (and other sources of sustainability information). The kind of sustainability information related to this accident and the accompanying huge amounts of money paid for the control and compensation of the environmental and socio-economic damage, can be of absolute relevance to investors (Garro 2010).

6.3.1.2 Investors' Needs

As was already discussed, the motivation for taking account of sustainability information differs between investors. Some investors are more interested in

⁶⁵ Apparently many investors use questionnaires or analyses from analysts to decide on investments in companies. Analysts send questionnaires to companies and with those they prepare the analysis, or they make the analysis themselves and ask companies to comment. There is a trend away from the questionnaire towards the pre-prepared analysis. On the other hand, company response rates to questionnaires appear to be growing. Investors (analysts) often value direct meetings with companies (including road-shows on SRI, organized by companies and presented by CSR representatives) over reading company reports. Through these meetings they have direct access to management and specific company experts, who can give qualitative information (EU Workshop No. 2 2009)

macroeconomic demand drivers, shifts in regulations, market prices and the sustainable investment opportunities arising from that. Sustainability information is only relevant for them if it can be used in direct decision-making. Basically, investors are found to search for sustainability information (EFFAS et al, 2010):

- that has an added value for the direct assessment of a company's value now and in the future;
- that enables them to assess a company's contribution (positive and negative) towards the achievement of a sustainable economy and society, and to take action on the basis of that. The rationale is that many companies' value will be negatively impacted in a non-sustainable economy and society. This is of particular relevance to pension funds and insurance companies, which are exposed to longer-term trends within the economy as a whole. These investors may reward companies that contribute to a sustainable economy.

In more general terms the priority needs of investors with respect to sustainability reporting were defined as follows, not in order of priority (EU Workshop No. 2 2009):

- Information that is somehow linked to financial performance is of top relevance: it could be complementary to other policies, like anti-bribery or anti-corruption policies or sector specific issues; examples are available on how solid company's anti-bribery policies have directly affected investment decisions. However, others argue that corruption is a much wider problem in society, which should not be linked to companies alone, and therefore asking them to report on this issue might not be an appropriate solution.
- Information must be comparable across companies, which makes normalizing of information necessary ("GRI is the best existing standard to be implemented worldwide").
- Information must be consistent over time.
- Information must be relevant and material, linked to the company strategy. Materiality is differently appreciated by different kinds of investors. Companies should explain to investors why certain sustainability information is material.
- Information should be reliable, and therefore assured by a third-party. However, assurance is no guarantee for a qualitatively good report. The scope of a report is important (right numbers, right topics covered). Stakeholder involvement can add value to quality and reliability.
- Information related to risks, including the reputational risk, is important because this also indicates how well a company is managing its relations with stakeholders.
- Information must be complete and comprehensive.

From the interviews with (SRI) investors and analysts providing information for investors it can be learned that investors in general basically look for facts and figures, and not for narrative explanations of companies' intentions towards CSR. Many reports are selective in what they present and are therefore not always useful for investors' decisions. The data must be complete in order to be comparable. Concise tables, following a standardised set of parameters should be included, preferably certified. Some investors mention that sustainability reports would gain value if they were

developed by business people instead of persons with an environmental, PR or social background.

6.3.1.3 Investors' View on the Future of Reporting

From the investors perspective several changes in sustainability disclosure are expected. Because of the different perspectives between different investors, only some general suggestions on which more or less consensus exists can be provided, derived from the EU Workshops as well as from literature (Eurosif 2010):

- For comparable sustainability information, two reduced sets of agreed key performance indicators (KPI) should be developed: one set for investors and analysts, and one set of KPI's responding to broader social concerns (often expressed by civil society organisations and offering the 'social license to operate'). Using these indicators should be made obligatory for both listed and non-listed companies, but only with a phased approach towards regulation. However, there is a sense of urgency for improving company disclosure (and inclusion of the information in investment decisions) and companies do need some latitude of choice in terms of content.
- Regulation of assurance is necessary; the status of sustainability KPIs and information should be aligned with the status of financial information and reporting. KPIs that are reported in the annual report should also be subject to an appropriate level of assurance. This will improve the quality of the information and provide investors with confidence in relation to completeness and reliability of disclosures made.
- The sustainability information should be placed on the same level as financial information.
- A move towards integrated reports can contribute to the creation of a sustainable society where shareholders and (other) stakeholders consider each others' interests.
- Mandatory reporting should primarily apply to large companies or organisations; public interest entities including listed companies, state-owned organisations, as well as large cooperative organisations should be the primary targets.

6.3.2 Civil Society

6.3.2.1 Motivations for Civil Society to Read Sustainability Reports

Within civil society numerous players have some kind of relation to companies. Many groups or individuals are in some way affected by the company's activities and by the level of sustainability the company has adopted in its overall operations. The following groups, representing different parts of civil society, can be distinguished as having a distinctive background and interest in sustainability reporting:

1. Media and journalists;
2. NGO's and charity organisations;
3. Consumers;

4. Affected communities.

Often, these civil society readers seek direct dialogue with reporting companies, with the aim of using the obtained information to influence companies' behaviour or to inform others. To enter into a positive relationship with companies, these civil society players look for credible partners. Against poor performers public action may be organised (KPMG and SustainAbility 2008: 27). There are plenty of examples of civil society specific interests, such as human rights issues, transparency on financial information (information on taxes, revenues and royalties paid by extractive industries, clauses from investment contracts related to sustainability issues and loans and export guarantees granted by public financial institutions) (EU Workshop No. 3 2009), and environmentally sound production practices. In the following Paragraphs, the perspective of three groups will be highlighted.

6.3.2.2 Civil Society's Needs

Some general opinions of civil society regarding reporting practices by companies, derived from the EU Workshops are that many readers are dissatisfied with current disclosure practices and find sustainability reports less and less relevant. They argue that:

- reports focus too much on good news and topics that are easy to cover;
- reports tend not to detail the impact of a company's operations (and supply chain) on issues such as poverty and job creation;
- current reports often deal with isolated issues, whereas a comprehensive systematic analysis is preferable;
- reports do not use common indicators, making comparability difficult;
- the information included in annual reports, regardless of its quality, is often provided too late to be useful in addressing specific problems.
- there is evidence to suggest that green-washing (misleading or unclear green claims in advertising and marketing) is not an unusual practice. Apparently there has been a significant rise in recent years in the number of complaints about green advertising to the UK Advertising Standards Authority.

The interviews with NGOs, media and others show that reports are appreciated by civil society and the fact that companies voluntarily make an effort to inform society about social and environmental issues is received as a positive sign of a company's commitment to improve on those issues. However, the interviews also learn that lack of transparency, lack of materiality and green-washing are seen as important problems. Often, sustainability reports are seen as PR reports covering only a selective number of issues. Some interviewees provide examples of companies that have won awards for the best sustainability report, shortly after which the same companies are accused of major negligence of environmental or social issues. Again, transparency, standardisation, completeness and external assurance are seen as useful tools for improvement.

6.3.2.3 The Media

The media often try to get into direct communication with companies, while in most cases they are not affected by the activities of the company. The media function as a source of sustainability-related information from companies for other (civil society) reader groups or interested parties. Although the media do not frequently address “CSR” with that term, they often cover specific issues that are part of the broad sustainability agenda.

Journalists sometimes do not trust enterprises, as companies are not in all cases fully transparent. One of the roles of the media in the context of this study is to hold companies accountable for their performance. Therefore, the media have to be sceptical about the unilateral information provided by companies (EU Workshop No. 3 2009). According to the study performed by Edelman (2008), the media often do not view companies as reliable sources of information about their own social and environmental footprint, especially as long as companies are not showing full transparency about controversial issues, or hesitate to verify data externally. In these cases, enterprises might have to convince journalists of the correctness of the information provided. More openness, and explanation of the dilemmas faced by business, would help to build trust between enterprises and the media (EU Workshop No. 3 2009). Other observations related to the media include:

- As journalists tend to prefer ‘tough’ issues, whereas CSR-related issues are often perceived to be ‘soft’, linking CSR to risk and to new technologies may make the information more attractive to the media.
- As is common with news issues, the media tend to give more attention to bad news than to good news.
- In their presentations to the financial media, companies often fail to explain how sustainability issues relate to strategy and financial performance. This might lead to exaggerated green claims, which in the end might undermine the credibility of justified green claims (EU Workshop No. 3 2009).
- NGOs stress the crucial role of the media for the effective communication to target audiences and tackling problems such as corruption. They expect the media to carry out their own research and investigations. However, this is not always an easy or safe activity; in some countries journalists fear to investigate and write about large companies.

6.3.2.4 NGOs

NGOs represent civil society groups or the natural environment affected by companies’ activities. NGOs look at companies and their sustainability reports from their own point of view, aligned with their specific mission. NGOs tend to address large enterprises and find it difficult to engage with individual SMEs (EU Workshop No. 3 2009). NGOs have stressed that the focus of sustainability disclosure must be on the reliability of information and not on communication alone. Complete and transparent information allows NGOs and companies to cooperate in a better way. There is very little trust among NGOs in what companies report on; according to many NGOs reports have no

value if they are exclusively based on input provided by the reporting company itself. This suggests that, among NGOs, formal sustainability reporting is increasingly looked at as just one advocacy tool, and potentially not the most effective (Palenberg, Reinicke and Witte 2006). In the interviews, NGOs have indicated that the information in sustainability reports is often not complete. Human rights, including labour rights, are often not covered when the message is negative. They state that it is difficult to obtain the right information, especially in countries where these rights are violated. This view is supported by the interviewed representative of trade unions. For more adequate information, it was suggested to use labour inspectors reports instead of sustainability reports. Issues in which NGOs show special interest are (derived from the EU Workshops):

- Carbon disclosure.
- Water footprint: water has local and global implications and is seen as a major issue; therefore, measuring and providing information on water-related risks is considered very important.
- Corruption issues: corruption is a very delicate issue, having a significant negative impact on society and enterprises. Anti-corruption strategies need to be holistic and disclosure is only one element, alongside codes of conduct, monitoring and other measures to be implemented by authorities and enterprises.
- Use of sustainability criteria in investment decisions, whether these criteria lead to non-investment and whether these policies apply to all financial products. With regard to sustainability issues in general and human rights issues in particular.
- Information on business deals: what are the investments and who is proposing to finance a deal before it is made?
- Information on tax havens.
- Working conditions in the supply chain: workplace locations, findings of workplace investigations or social audits, corrective action plans and their results. This information is important for consumers and workers as a means of promoting practical improvements in the workplace.

6.3.2.5 Consumers

This reader group may be affected directly by a company's operations or by the consumption of a company's products or services. Consumers have a very direct and in many cases personal interest in information on sustainability issues. Although price is still the most decisive product purchasing factor, the survey of Edelman (2008) demonstrates that certain segments of consumers value socially responsible behaviour. In general, consumers are mainly interested in (OECD 2006: 31):

- sustainability information related to product safety measures;
- the effects of products on health;
- product quality, liability and warranty;
- new product development;

- the product manufacturing process: the circumstances under which products are produced (e.g. working conditions).

However, it is stated that consumers don't need *more* information about the products, but more *appropriate* and more *comprehensible* information for their direct choices related to the sustainability of a product. Consumers are rarely interested in 'raw' sustainability data: they need a useful framing of the information that allows for quick decision-making (EU Workshop No. 3 2009). According to EU Workshop No. 3, consumers often have doubts about sustainability performance while making their daily choices for the purchase of a product or service from a certain company. These doubts can be generated by unclear or missing product information or by the fact that consumers lack the knowledge to understand the production processes or local circumstances at the place of production. Little information is available about consumers' perception of sustainability reports. It is also not clear how many consumers are actually aware of the existence of sustainability reports. In the survey of Edelman (2008), it is stated that more tangible ways of communication, such as labelling, could be more efficient to reach this group and effectively inform individual consumers.

6.3.2.6 Affected Communities

In general, (potentially) affected communities will demand from a company to report on the actual impacts and pollution produced, about the social programmes and compensation methods. Not all this information may be obtained from a company's sustainability report, but the information is often part of general authorisation procedures.

According to EU Workshop No. 3, the information needs of communities affected by company's operations and investments need to be better addressed. Annual sustainability reports often do not reach the affected communities in the right way and language, and often do not contain the adequate location-specific information. A performance-based (backward-looking) global sustainability report can never provide the adequate level of local information needed for affected communities. In an ideal situation, affected or potentially affected communities receive adequate information on a company's possible impacts, prior to an investment decision. These groups need location-specific information, for example about expected pollutions and the details of environmental and other permits required or granted. To enable action, they might need to know to whom a company's products will be sold and who is financing the operation, in order to be able to influence the right people. Moreover, they need to know what rights of redress they have. Affected communities are often assisted by NGOs in their confrontations with a company (EU Workshop No. 3).

No further information is available on the use of sustainability reports by affected communities. It was beyond the scope of this study to include additional research on the readers' perspective of this stakeholder group.

6.3.2.7 Civil Society's View on the Future of Reporting

In general, civil society favours a culture of greater openness and transparency in enterprises, which must be reflected in the reports. Stakeholder group reporting (reports tailored to the needs of specific stakeholder groups, such as investors or communities) is seen as one of the top preferences for future reporting trends (KPMG 2008).

Regarding sustainability disclosure practices, policies and frameworks, civil society has the following general expectations (based on EU Workshop No. 3 2009):

- Mandatory requirement for sustainability disclosure:
 - Ensuring disclosure of information and comparability at a European level for all large companies; assurance must be obligatory in the same way as it is with financial information and should be carried out by an external, independent expert. Moreover, information should also be verified through public multi-stakeholder processes.
 - Integration of sustainability information in the annual report with the same status as financial information.
 - Gradual introduction of mandatory reporting, as it takes time for enterprises to include new requirements and to develop reporting on sustainability containing data with a level of quality comparable to today's financial data.
- Key performance indicators (KPIs) are necessary in order to compare across sectors and over time:
 - KPIs should be sector specific, since using general sustainability indicators creates a risk of overlooking the most important issues at stake.
 - The GRI has already developed a common set of indicators. These should be the basis of any further work in this field. Alternatively, there is a need to build on the experience of various different disclosure frameworks. ISO 26000 may also provide a basis for identifying KPIs.
- Companies should report on the supply chain, taking into account their sphere of responsibility.
- With regard to accuracy and the methodology used to verify information, a supervisory mechanism is necessary that can efficiently ensure information provided is accurate. There should be a distinction between verification of the correctness of sustainability data (accuracy/methodology leading to correct reporting), and the verification of the importance of sustainability data (completeness and balance leading to correct content).

6.3.3 Trade Unions and Employees

6.3.3.1 Motivation for Trade Unions and Employees to Read Sustainability Reports

According to Edelman and the European Trade Union Institute (ETUI) employees form an important reader group. However, recent research on the behaviour and preferences of employees with regard to reading sustainability reports is very limited. Based on his 2007 survey – based on interviews with a large number of individuals, among which many company representatives⁶⁶ – Edelman argues that from a company's point of view, employees are the most important audience for communication on corporate responsibility (CR). Furthermore, the ETUI describes employees as the *key stakeholder group* in the company (Vitols 2009). For a company defining its CSR strategy, the involvement of employees is therefore of very high importance. In many cases workers are the only influential stakeholder with long-term interests in and a long-term approach to their company. The interests of workers are often very much in line with society's interests in sustainability and long-term improvement (Vitols 2009).

Furthermore, employees are seen as slightly different reader groups, compared to other reader groups. An important difference is that trade unions and employees are directly related to the company and thus able to obtain information without the need for public sustainability reports. Another difference with other reader groups is the fact that trade unions and workers have an official right to be informed about the impacts of companies on a wide range of employment-related indicators, including environmental indicators that have a particular relevance for health and safety (Vitols 2009). Because of this right to information they also depend less on public sustainability reporting.

According to EU Workshop No. 4, trade unions only read sustainability reports to a very limited extent. This is partly due to the above-mentioned differences with other reader groups, but mainly because the majority of trade union representatives are focussed on basic issues such as payment and working conditions. For them, sustainability disclosure by the enterprise is not a main worry. Moreover, it is argued that representatives of trade unions do not necessarily have the experience and training to deal with sustainability issues. However, a survey of workers' representatives in a number of large European companies suggests they do share the interest of some other stakeholders in their wish for better sustainability information disclosure. Trade unions see it as one of their responsibilities and also as an opportunity to use their special position to put pressure on companies to take greater account of sustainability factors (EU Workshop No. 4 2010).

6.3.3.2 Trade Unions' and Employees' Needs

Trade Unions want the following issues to be covered by sustainability reporting (EU Workshop No. 4 2010):

- Social and economic effects of restructuring (employment, effects on SME suppliers, social impacts).

⁶⁶ See also footnote 63.

- Collective bargaining and good industrial relations within their own organisation and the supply chain.
- Disclosure of details of supplier factories.
- Disclosure of percentage of workers on short-term contracts, including in the supply chain.
- Information on management pay linked to performance on sustainability issues.
- The structure of incentives for the purchasing department.
- Disclosure of Health and Safety issues.
- Disclosure of data on integration of disabled people.
- Disclosure of data on women in executive positions.

Prospective employees find that companies often neglect them as an important CR communications audience. While corporations are actively and successfully engaging employees on CR issues, they are not adequately courting prospective employees to the same degree. Companies do not consistently integrate CR messaging in their recruiting, because they underestimate the importance a prospective employee places on a company's CR programs (Edelman et al. 2008). For new employees, it is of growing importance to know whether the company they will work for has a sound sustainability and social track record. This issue becomes more and more important for young people, although financial remuneration is probably still the most decisive factor at the time of accepting a job.

Trade unions feel that sustainability disclosure practices vary too much. The availability, quality and relevance of sustainability information vary widely between and within sectors and countries. This variety is explained by factors such as national culture and legislation, exposure to reputational risk, the culture and conscience of managers and (according to trade unions themselves) the involvement of trade unions in the disclosure process. Trade union representatives believe that much sustainability disclosure fails to adequately address the issues in which trade unions are most interested (EU Workshop No. 4 2010). According to a recent study, mentioned in EU Workshop No. 4, the perspective of trade unions/employees is that companies disclose more information about policies and objectives than about how those policies are actually implemented. Moreover, they believe that more information is provided on governance than on social and environmental issues, and that targets and indicators are frequently not relevant to business strategies. According to unions and employees, disclosure is weakest on the following issues: restructuring, reduced environmental impact, free association of workers, promotion of social dialogue, and working time.

In the interviews, trade unions expressed their deep concern about the reliability and completeness of information about human rights including labour rights in so-called countries of concern. It is very hard to get the right information if a company deliberately violates these rights. According to these trade unions, such companies will never reveal the right information in a voluntary sustainability report.

6.3.3.3 Trade Unions' and Employees' View on the Future of Reporting

According to trade unions and employees, sustainability information should be comparable, consistent, complete, continuous, anticipatory and verified. International companies should provide information on a country-by-country basis, not just as aggregated global data. Trade unions expect more involvement in the sustainability disclosure process to assist companies in providing more accurate and credible information, especially regarding employment conditions (EU Workshop No. 4 2010). The current sustainability disclosure scheme, which largely operates on a voluntary basis, is only partially meeting the needs of workers. Whereas practices of some companies are quite advanced (e.g. full disclosure on GRI labour-related indicators), other companies provide little or no hard data. According to trade unions, the voluntary scheme needs to be replaced by a European legal framework with the following characteristics (Vitols 2009):

- Obligations for sustainability reporting and the basis for this reporting (e.g. adoption of standards developed through a multi-stakeholder organisation) with the goal of having all companies adopting these standards.
- More harmonisation of the existing different reporting rules of EU Member States, developed over time.
- Obligatory external verification of sustainability reporting to improve the credibility of sustainability information provided.
- Reporting on a wide variety of standardised sustainability indicators to improve comparability over time (e.g. to measure progress) and across companies, and including the supply chain. A good starting point is the GRIs G3 "core" indicators and its further development of sector-specific indicators (Vitols 2009).

A simplified version of the framework for SMEs would be preferred, initially differentiated to the size of the company. Furthermore, trade unions feel they could be involved in the development of sustainability reporting standards through a multi-stakeholder organisation with democratic internal procedures (Vitols 2009).

6.4 Readers Perspective on the Major Trends in Reporting

6.4.1 Online Reporting

In recent years', reporting companies have increasingly combined hard-copy versions with web-based information. Some reporting companies are experimenting with reporting on the web only, but not all readers seem to be fully comfortable with this, although it allows for continuous updating in case of changes or special events. A PDF-report on the webpage is still the most frequently used format, followed by the stand-alone hard copy and a web-based interactive form of sustainability reporting. A combination of these formats seems the ideal situation. The PDF-report enables readers to access the report easily, and effectively search for key words (KPMG and SustainAbility 2008). Web-based and IT technology could enable investors and other

users to better compare and value all disclosed information, which would especially be the case for integrated reports.

In general, the readers interviewed see advantages of online reporting, but most of them prefer a yearly hard-copy and a PDF with additional web updates in case of important events or changes.

6.4.2 (External) Assurance

From the readers' perspective, external assurance, both on sustainability reports and on sustainability performance, plays an important role for the credibility and reliability of reporting. However, readers are divided on who the best assurance providers are for these various activities (KPMG and SustainAbility 2008). The civil society readers favour stakeholder representatives over experts and professional assurance providers, perhaps reflecting a belief that interpretations of performance are most reliable when provided by those most directly affected (KPMG and SustainAbility 2008).

The readers interviewed all see external assurance as an important condition for the quality and reliability of the reports. Some are critical about the real independence of external auditors, which in the end are contracted by the reporting company.

6.4.3 Stakeholder Engagement

Stakeholders of every kind (NGOs, SRI fund managers, journalists, internal audiences) have criticised corporate communications and engagement. They often find communicating with companies to be difficult (Edelman et al. 2008). From the readers' perspective, there is a lot of room for improvement in stakeholder engagement. According to Accountability Rating, most companies discuss global issues with their stakeholders, but there is a lack of systematic and coherent stakeholder engagement, including local stakeholders and working across national boundaries (Accountability Rating 2008). In general, readers expect a stronger role for stakeholders in reporting. Most important to them are the involvement in issue selection, the ability to provide comments on the reports and insight in how stakeholders' feedback is incorporated into strategy and targets (KPMG and SustainAbility 2008).

The users interviewed are mostly in favour of stakeholder engagement in order to improve quality and materiality of the reports. Some readers (investors and NGOs) are actively involved during the preparation of the reports in order to improve the company's performance and to make sure adequate information is included.

6.4.4 Integrated Reporting

Many companies publish financial and sustainability reports simultaneously, with the intention of underscoring the relevance of sustainability for the business. The interviews show that many readers are aligned with this thinking and indeed desire reports in the future to be integrated with annual financial reports. The advantage is

that integrated reports gain importance within the company because of more high level commitment. Another advantage is that separate sustainability reports are often not read by business investors, because they do not include sufficient hard data. At the same time, some readers interviewed argue that there might be a risk that sustainability information in an integrated report does not reach those target groups that never consult annual financial reports. According to them, that may often be the case.

According to investors, integrated reports in hard copy risk a loss of granularity and specificity of information, because the financial information remains dominant. This is not the case with web-based reporting, as supporting IT technologies may enable investors and other users to better compare and value all disclosed information.

6.5 In Brief

Many stakeholders are no longer satisfied with reactive corporate responses to the world's problems. With considerable media coverage of environmental and social issues, companies have an opportunity to align their brands with positive values and earn credit for their improved records (Edelman et al. 2008). These elements of CSR activities and performance should at the same time be covered in a report of acceptable quality. Companies should provide information with a high degree of credibility and relevance. This can only be the case if a helpful context is provided for the information, allowing comparisons between different products and actors (EU Workshop No. 3).

Readers from business, civil society and other groups tend to share the same opinions regarding the desired contents and quality of the reports (KPMG 2008: 26). The main differences lie in how the various reader categories use the reports. Transparency, completeness and balance are key indicators of a quality report. Readers require the following information to be part of such reports (ibid):

- **A link between sustainability strategy and overall business strategy and planning**, including information on risk management and resource management (physical and human), purchasing and value chain management, research and development, and marketing and lobbying activities.
- **Commitment to sustainability**, demonstrated by a balance of good and bad news (serving trust and credibility), a thorough stakeholder engagement process and incorporation of their feedback into strategy and targets, a clear definition of targets and results with clear explanations and external verification of the provided information (assurance).
- **Actions taken to address sustainability issues**, showing what actual measures are being taken by the company regarding sustainability impacts in practical terms. Reporting companies need to provide evidence on how key sustainability impacts are addressed: operations, product development, sales, and relationships with customers, investors, government and other stakeholders.
- **Innovative thinking** to solve sustainability challenges.

From the interviews it can be learned that very different types of readers agree on the view that reports often lack materiality, are often incomplete and are sometimes selective in their content. The balance between good and bad news often favours the positive image of a company too much. Important differences are observed by most of the people interviewed between the reporting quality of large companies and SMEs. One explanation for this could be that large companies may have a professional division dealing with reporting, while SMEs lack the time and financial resources to report. Europe is seen by the readers interviewed as the most advanced in quality reporting.

Civil Society tends to be the most sceptical reader group, although it receives the fact that companies voluntarily make an effort to inform society about social and environmental issues as a positive sign of a company's commitment to improve on those issues. However, the lack of transparency, lack of materiality and green-washing in sustainability reports are seen as important problems. The general opinion is that reports focus too much on good news and topics that are easy to cover and tend not to detail the impact of a company's operations (and supply chain) on issues such as poverty and job creation.

Investors and analysts are increasingly aware that corporate responsible management is key to good management in general. However, in 2009 only some 20 per cent of the investment funds in the EU had some sustainability component in their criteria. Moreover, those using the sustainability information as a *primary* condition of investment may represent only two per cent of the market. Investors need comparable, relevant, material, reliable, comprehensible information, which is linked to financial performance, to risks and to the company strategy, and which is consistent over time. The use of sustainability reports by investors may still be limited as they prefer to read questionnaires from analysts, valuation models, regularly updated web-based information and e-mail alerts.

As internal stakeholders, employees (and trade unions) want to read about social and economic effects of restructuring (employment, effects on SME suppliers, social impacts), health and safety issues, the integration of disabled people, women in executive positions, management payments linked to performance on sustainability issues, and incentives for the purchasing department. For obtaining the relevant information they depend less on public sustainability reporting.

7 Match, Mismatch and Challenges

7.1 Introduction

Meeting the needs of the reader is an essential task for companies publishing a sustainability report. However, in the previous chapters we have seen that there is not always a match between reporting companies and readers where it comes to current reporting practices and the needs or views on the future of sustainability reporting.

This Chapter presents some of the reporting practices and views where reporting companies and readers do or do not match (Paragraph 7.2), as well as some of the challenges reporting companies may face when deciding on the content and quality of their report, based on the reporting principles identified and covered by GRI.

7.2 Match and mismatch between Reporting Companies' Performance and Readers' Needs

Recent literature and the results from the interviews show that companies and readers generally agree on several important characteristics of sustainability reporting:

- Reporting companies and readers agree that reporting is not a goal in itself. One of the key purposes of reporting is to improve performance. Reporting may improve a company's internal processes (e.g. through systematic data compilation), may enable a company to engage with stakeholders on the company's sustainability strategy (further improving this strategy), and may ultimately contribute to a better sustainability performance.
- The fact that companies voluntarily make an effort to inform society about social and environmental issues is perceived as a positive sign of a company's commitment to improve on those issues.
- To a large extent, readers and companies agree on the fact that regulation of the development of sustainability reports, the content of the reports and the verification of these reports (assurance) could offer important benefits when it comes to quality, credibility and comparability of reporting. Public policy instruments are seen as an effective way to improve the uptake and quality of sustainability reporting, as long as these instruments take account of the differences between large companies and SMEs, and as long as regulation does not result in a wide variety of national reporting schemes and obligations, hindering comparability and the aggregation of local data in regional or global reports. The need for harmonisation of reporting standards and performance indicators is also stressed by both reporting companies and readers, while realising that a 'one-size-fits-all' approach has its limitations.
- Integrated reporting constitutes a promising way of further increasing the status of non-financial information because of more high-level commitment.

- Reporting companies and readers agree on the relevance of a stronger stakeholder engagement in the reporting process, enabling companies to better decide on the issues that should be covered, and increasing the chance that the company's report matches the readers' needs.
- The expectations regarding the frequency of annual reporting matches between reporting companies and readers, as is true for the way in which most reports are currently published: in hard copy and in PDF-format, sometimes accompanied by additional on-line information.
- Part of the issues companies currently report on match with the expectations of readers, including information on issues like climate change/carbon emissions and occupational health and safety.

There are also various reporting issues where views and practices of reporting companies do not always match with the readers' expectations. However, first it should be realised that this study is limited to the different groups of readers *in general*, to what they want/expect from the reports, and to what companies *generally* provide and aim for. The study does not provide an analysis of specific reporting companies and their audiences. Secondly, this mismatch may be the result of real limitations to sustainability reporting or to perceived limitations:

- Even though sustainability reports are used by the different reader groups to some extent, many readers are still sceptical about the credibility of sustainability reports, stressing the need for external assurance, including the involvement of other stakeholders besides auditors contracted by the company.
- Many readers still believe there is an imbalance between the information presented on issues where a company is able to show a positive performance and the issues where a company still faces challenges, giving rise to the feeling of green-washing.
- Readers feel that the issues, which are of importance to them, are not adequately covered in sustainability reports, including for example human rights issues and labour rights issues further down the supply chain.

Some of the reader groups may not yet be adequately reached with current sustainability reports, including (part of the) investors, consumers and affected communities. An important question in this respect is also whether sustainability reports are the right communication tools for these target groups. Moreover, regarding the trend of integrated reports, readers argue that there might be a risk that when sustainability information is integrated in annual reports, many target groups will not be reached at all, as, in the first place, many of those never consult annual (financial) reports.

With regard to the different reader groups identified the following observations can be derived from the previous chapters:

- Investors are realising that corporate responsible management is a power of attorney for good management in general and companies are increasingly aware of the increasing influence of investors, especially the social responsible investment analysts. However, the difficulty for companies is what information to present to investors that demand robust and current data, and how to do this.

The use of sustainability reports by investors is limited here, as they prefer to read questionnaires from analysts, valuation models and regularly updated web-based information or e-mail alerts. This may create a problem to companies that are determined to produce a formal, printed annual CR report.

- From a company's point of view, employees are the most important audience for communication on corporate responsibility (CR) (Edelman et al. 2008). Trade unions also envisage employees as the key stakeholder group in the company (Vitols 2009). However, employees are also seen as a slightly different reader group, compared to other reader groups, as they are directly related to the company and thus able to obtain information without the need for public sustainability reports. Furthermore, because trade unions and workers have an official right to be informed about the impacts of companies on a wide range of employment-related indicators, including environmental indicators that have a particular relevance for health and safety (Vitols 2009), they also depend less on public sustainability reporting. However, the ETUI recognizes that in some cases employees are largely excluded from the reporting process. In these cases sustainability reporting mainly appears to be a public relations activity (Vitols 2009).
- Referring to the assumed mismatch in communication between companies and civil society, an example from Spain shows that dialogue facilitation can effectively help in talking to each other and finding the right information. The Spanish Global Compact Network has a tool called 'The Square Table' where all the different stakeholders have the opportunity to exchange their views on the different topics related to the 10 Global Compact Principles and related issues. This experience has proven to be a very good way to facilitate dialogue between NGOs and companies, and any other stakeholders (Garro 2010).
- As mentioned in Chapter 6, NGOs have stressed that the focus of sustainability disclosure must be on the reliability of information, and only complete and transparent information allows NGOs and companies to cooperate in a better way. Companies only consider these expectations of NGOs on disclosure and transparency reasonable and credible when NGOs, governments and public companies are transparent as well and report on sustainability in a comparable way (Garro 2010).

7.3 Challenges in Sustainability Reporting

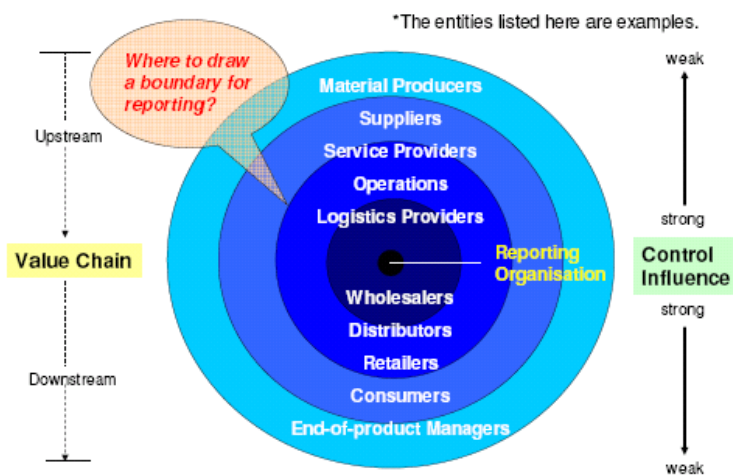
7.3.1 Boundaries and Supply Chain Reporting

The boundaries of a report refer to the entities covered by it. Defining the boundary of a sustainability report is still a challenge to reporting companies and is closely linked to the question of responsibility of a company with regard to its supply chains: where does the responsibility of a company begin and end when it comes to CSR? Different documents cover the question of scope of responsibility in CSR, including ISO 26000 and the UN Global Compact. In elaborating upon the corporate responsibility to respect

human rights under the UN Protect, Respect and Remedy Framework, the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, John Ruggie has offered guidance on the scope of this responsibility⁶⁷. The approach differs from the sphere of influence model used by the Global Compact and ISO 26000, as the UN Framework is based on impact rather than influence (see the illustration below).

The GRI has developed a GRI Boundary Protocol to explain the boundaries of reporting. To quote the G3 Guidelines, a sustainability report “should include within its boundary all entities that generate significant sustainability impacts (actual and potential) and/or all entities over which the reporting organisation exercises control or significant influence with regard to financial and operating policies and practices” (GRI Portal 2010). In the GRI Boundary Protocol, the issue of reporting boundaries is presented in further detail. As the GRI Boundary Protocol states: “In preparing a sustainability report, a reporting organisation needs to set a “boundary” that defines which entities are included in a report, and which are excluded”. This is illustrated in the Boundary Protocol by Figure 9.

Figure 9: Illustration of the question “Where to draw a reporting boundary?”



Source: <http://www.globalreporting.org/NR/rdonlyres/CE510A00-5F3D-41EA-BE3F-BD89C8425EFF/0/>

⁶⁷ He explains in the draft Guiding Principles on Business and Human Rights that "the scope of the corporate responsibility to respect human rights extends across a business enterprise's own activities and through its relationships with other parties, such as business partners, entities in its value chain, other non-State actors and State agents. Particular country and local contexts may affect the human rights risks of an enterprise's activities and relationships. 'Influence', where defined as 'leverage', is not a basis for attributing responsibility to business enterprises for adverse human rights impacts. Rather, a business enterprise's leverage over third parties becomes relevant in identifying what it can reasonably do to prevent and mitigate its potential human rights impacts or help remediate any actual impacts for which it is responsible." (Commentary for Guiding Principle No. 12)

BoundaryProtocol.pdf

An issue that is receiving increasing attention and that is also closely related to a company's supply chain is reporting on human rights issues. More companies outsource their operations and move to areas where laws on human rights are weak and/or where human rights abuses are common. These companies increasingly run the risk of being associated with human rights violations (GRI 2009: 9). Stakeholders, especially civil society organisations, have started to look more carefully at corporate influence on human rights issues. A growing number of tools related to human rights and business provides useful guidance for companies, but most of these tools do not provide detailed information on human rights reporting. Human rights reporting poses its own set of unique challenges (ibid: 8). One of the tools that is helpful to companies is participating in the UN Global Compact (Local Networks). All business participants have to produce an annual Communication on Progress (COP), which enhances accountability and drives continuous improvement. Companies are encouraged to report on their progress made in implementing the 10 United Nations Global Compact Principles, in the areas of human rights, labour, environment and anti-corruption and broad UN development goals. Furthermore, the (draft) Guiding Principles for the Implementation of the 'Protect, Respect and Remedy Framework' posted by the Special Representative, will provide high level guidance on human rights reporting. Moreover, GRI's work on human rights includes recent work from a joint working group between GRI, UNGC and Realizing Rights in their joint project "Human Rights Reporting: A Call to Action"⁶⁸.

7.3.2 Report Content and Report Quality

As can be concluded from the previous chapters, matching reporting practices and expectations of reader groups constitutes an important challenge to companies. Important issues related to report content and report quality can be illustrated by the reporting principles described in the GRI G3 Guidelines. These principles focus on reporting *content* (guiding what a report should cover) and reporting *quality* (ensuring the quality of reported information, including its proper presentation). For defining content, other standards can be of help as well, including:

- The 10 United Nations Global Compact Principles, in the areas of human rights, labour, environment and anti-corruption.
- The UN development goals.
- The core international HR standards including the international bill of human rights.
- The core labour conventions.

⁶⁸ See http://www.unglobalcompact.org/Issues/human_rights/Human_Rights_Working_Group.html (see material under Human Rights Reporting)

However, the GRI G3 Guidelines use more broadly elaborated reporting principles for defining content.

7.3.2.1 Report Content

GRI uses the following principles:

Materiality means that the information in a report should cover topics and indicators that reflect the organisation's significant economic, environmental, and social impacts, or topics and indicators that would substantively influence the assessments and decisions of stakeholders⁶⁹.

Stakeholder inclusiveness means that the reporting organisation should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests.

Sustainability context means the report should present the organisation's performance in the wider context of sustainability.

Completeness means that coverage of the material topics and indicators and definition of the report boundaries should be sufficient to reflect significant economic, environmental, and social impacts and enable stakeholders to assess the reporting organisation's performance in the reporting period.

Creating a report meeting these principles is a challenge, since companies face a dilemma: they have to strike a balance between transparency, which is about disclosing data on the company's performance, and materiality, which seeks to filter data that are deemed important to certain stakeholders (EU Workshop No. 1 2009: 4). As shown in Chapter 6, many readers still find sustainability reports incomplete. According to almost 25 per cent of the respondents in the KPMG and SustainAbility study the most important element that is often not sufficiently detailed in the reports are company failures. Other missing or incomplete elements mentioned by the readers are the overall sustainability impact of the company, and a good description of risks and opportunities (KPMG and SustainAbility 2008: 12).

As was mentioned in Paragraph 5.5.2, based on the research of over 20 leading corporate law firms as part of his Corporate Law Project Special Representative Professor Ruggie found that in general, financial reporting rules already require companies to disclose all information that is "material" or "significant" to their operations and financial condition, with penalties for non-disclosure or misrepresentation. Regulators tend to regard information as "material" if there is a substantial likelihood that a "reasonable investor" would consider it important for making an investment decision. Uniformly, such information includes financial risks, but regulators also

⁶⁹ More information on GRI's latest work on materiality can be found here:

<http://www.globalreporting.org/CurrentPriorities/G31Developments>

increasingly recognize the “materiality” of certain short- and long-term non-financial risks to a company’s performance (Ruggie 2010: 9).

A combination of internal and external factors should be used to determine whether information is material, including factors such as the organisation’s overall mission and competitive strategy, concerns expressed directly by stakeholders, broader social expectations, and the organisation’s influence on upstream (supply chain) and downstream (customers) entities (GRI Portal 2010). According to Business and Society (2010), the materiality debate is closely related to the challenge of systematically integrating stakeholders. To be able to point out the most relevant activities and fulfil the expectations of the most important stakeholder groups, a stakeholder dialogue strategy that starts before writing the report would be necessary. Very few companies define materiality this way, which reduces credibility (Business and Society 2010).

Another challenge related to the materiality debate is the link between materiality and appropriate disclosure. One example of this is the increasing relevance of reporting on climate change. Most companies now disclose information on climate change in their sustainability reports, but a recent analysis showed that the comprehensiveness of the information was questionable, and the information had limited relevance to investors. Material information is disclosed, however the form of disclosure is not necessarily appropriate (Kolk 2010: 24).

7.3.2.2 Report Quality

The GRI G3 Guidelines use the following reporting principles for defining quality:

Balance means that the report should reflect positive and negative aspects of the organisation’s performance to enable a reasoned assessment of overall performance.

Comparability means that issues and information should be selected, compiled, and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyze changes in the organisation’s performance over time, and could support analysis relative to other organisations.

Accuracy means that the reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organisation’s performance.

Timeliness means that reporting occurs on a regular basis and information is available in time for stakeholders to make informed decisions.

Clarity means that information should be made available in a manner that is understandable and accessible to stakeholders using the report.

Balance in a sustainability report is achieved by the reporting company being honest and open on successes as well as failures (GRI Portal 2010). According to Edelman as well, balance is the key word. A right balance includes the dilemmas companies encounter, and the risks and opportunities they see. Readers often suspect that a report doesn’t tell them the full story: 25 per cent of readers believe that failures are likely to be left out of reports (KPMG 2008). A global environmental NGO executive interviewed by Edelman said that “if the executive summary is 100 per cent he worries

and puts a filter on when viewing the report. Because, if it is all good news, he finds that the company doesn't understand the evolving nature of CR" (Edelman 2008).

In EU Workshop No. 2 it was mentioned that reports often do not show a correct balance between positive and negative information. In their public reports companies pay much more attention to the positive achievements and impacts than to problems and mistakes. An example given by readers is the lack of transparency about profits generated by activities which are not in line with good labour practices or by activities that do not respect human rights.

Comparability of information between companies is especially important to the investor community, as they want to make well-based decisions on their investments. Sustainability reports must be complete and normalizing of information would be necessary in order to make the information comparable across companies.

Assurance may play an important role in making sure the information provided is accurate. Assurance is seen as an important factor to build trust and to create transparency in sustainability reporting. However, verification of data is time consuming and costly, which is a reason for companies to refrain from assurance, especially when they publish a report for the first time (Kolk 2009: 7). In the EU Workshops it was stated that companies spend less money on sustainability assurance than on financial assurance, although sustainability information and processes are more complex (EU Workshop No. 5 2010). Currently, the scope of the assurance is often very limited, focussing on the model and the sources of reporting, but not on the materiality, relevancy and accuracy of the data provided. Assurance practices are often far from a formal audit procedure, and therefore the outcome of the assurance is very limited. Auditors increasingly use multi-disciplinary teams, not just financial auditors, and can play a constructive role in accompanying an enterprise that seeks to integrate sustainability into its strategy and operations (EU Workshop No. 5 2010). In short: the question remains what should be the object of verification: the sustainability report itself or the company's sustainability performance.

In the CR Reporting Awards 2008 (CorporateRegister.com 2009), reports were assessed on the quality of their assurance statements, including for example references to standardised approaches (GRI reference, AA1000AS, ISAE3000 reference). The outcome of it was that the company's choice of assurance provider (specialist consultancies, certification bodies and accountants are the three major providers) significantly affects which key elements will be included in the resulting assurance statement. Assurance by specialist consultancies scored positive on assurance elements in around 70 per cent. Certification bodies scored positive on all elements in almost 90 per cent. Accountants however scored negative in 80 per cent on assurance elements.

For readers of sustainability reports 'hard' assurance does not add so much trust. Only 36 per cent chose third-party assurance as the top trust indicator (GRI 2010). With regard to the 'soft' assurance, such as reporting awards, readers are even less positive. Only 18 per cent of the readers chose 'external stakeholder voices', and 15 per cent picked 'awards' as a top trust indicator, whereas 32 per cent of reporting

companies chose the awards as a top-three factor in measuring the success of their sustainability reporting.

7.4 In Brief

In general, companies and readers agree on several important characteristics of sustainability reporting:

- Reporting is not a goal in itself, but is meant to improve a company's sustainability performance.
- Regulation of the development of sustainability reports, the content of the reports and the verification of these reports (assurance) could offer important benefits when it comes to quality, credibility and comparability of reporting.
- Integrated reporting constitutes a promising way of further increasing the status of non-financial information.
- The relevance of a stronger stakeholder engagement in the reporting process.

However, taking the restrictions of this study into account, expectations of readers are not always being met, which might also be the result of real or perceived limitations to sustainability reporting:

- Many readers are still sceptical about the credibility of sustainability reports.
- Readers still believe there is an imbalance in the information presented (between success stories and issues a company still needs to improve on).
- Readers feel that the issues, which are of importance to them, are not adequately covered.
- Some (potential) reader groups have not yet been adequately reached with current sustainability reports.

Key challenges to reporting companies are related to the reporting boundaries and to issues related to report content and report quality, as described in the reporting principles of the GRI G3 Guidelines. For defining content, key challenges for reporting companies are Materiality, Stakeholder inclusiveness, Sustainability context and Completeness. Following the UN Global Compact (for producing a COP), the 10 UNGC Principles and broad UN Goals can be used to define content. For defining quality, the main challenges relate to Balance, Comparability, Accuracy, Timeliness and Clarity. The information on the companies' and readers' perspective with regard to sustainability reporting shows that there is still room for improvement on both reporting content and quality.

8 Conclusions

From the study, several conclusions can be drawn regarding the state of the uptake of sustainability reporting by companies, the motivations for reporting and reading reports, the quality of reports, the stimuli to improve the number and quality of reports and the (potential) role of public policy instruments.

In this study, the assessment of the match between the practices of reporting companies and readers' needs is limited to the different groups of readers in general, to what they expect from the reports, and to what companies generally provide and aim for. To assess whether there is a match between the target audiences of the reporting companies and the audiences that actually read the report and to analyse to what extent readers' needs are met by the reports, a more extensive research would have been needed (e.g. focusing on a number of specific reporting companies and their audiences).

Availability of information on sustainability reporting

- Only little research has been done (previously) on reporting practices by companies and their motivations, as well as on preferences and behaviour of readers of sustainability reports. Studies that do exist are often restricted to a specific target group, and are often based on interviews with a limited number of stakeholders as well. Other studies on the perspective of readers tend not to provide the view of the readers on specific reports, but only address reader groups in general.
- There are only few empirical studies on the effects of reporting according to guidelines or schemes, such as the GRI. The effects of awards and rankings on the number and quality of sustainability reports has not been studied before.
- The updated 2010 Carrots & Sticks publication by KPMG, GRI, UNEP and the University of Stellenbosch is a good general reference for the more than 140 national standards on voluntary and mandatory approaches to sustainability reporting, from 30 countries, identified in this study. Only very recently, the first analyses of the effects of specific government regulations on sustainability reporting have been conducted: in September 2010 studies by Sweden (for state-owned companies only) and Denmark were published.

Uptake of sustainability reporting by companies

- Reporting is growing in numbers, but is still quite limited compared to the total number of companies. For many large multinational companies, sustainability reporting has become a mainstream phenomenon. However, many SMEs still consider sustainability reporting to be too costly and time consuming. The exchange of information between reporting companies and companies that do not

yet report may narrow the gap between perceived (high) obstacles and the real (lower) obstacles to reporting. Especially for SMEs, this type of support could further improve reporting practices.

- The number of people using sustainability reports to gather data on organisations is growing as well. As people are more and more aware of sustainability issues, reports on sustainability issues have become one of the key ways of communication with companies. However, the mainstream media are still seen as the most important source of information on companies, followed by corporate websites and third party sources, such as NGO's and non profit organisations.
- Sectors where reporting already has become mainstream are automotive, oil and gas, utilities, chemicals and pharmaceuticals and electronics and computers. Especially in global industries, with relatively small number of large firms, competitors closely watch one another, and 'follow the leader'. The data of GRI and UN Global Compact show that the highest reporting figures are to be found in the sectors financial and/or supporting services, construction and energy.
- Integrated reporting may enhance the uptake of sustainability reporting. Integrated reports may gain importance within the company because of more high-level commitment. Moreover, separate sustainability reports are often not read by business investors because they do not include sufficient hard data.

Motivations and obstacles for reporting

- Motivations to report vary among companies. Ethical considerations, reputation and brand value have become more important, while the relevance of economic considerations have decreased. Reputation as a motivation for sustainability reporting is especially important for MNEs, due to potentially large environmental and social impacts and the involvement in international supply chains where labour issues, environmental issues and human rights issues play an important role. SMEs in many cases operate locally and communities can often respond to their behaviour on a daily basis. Contact with their stakeholders is more direct and the sustainability report does not have such an impact in the reputation building process.
- For many European companies, active lobbying of stakeholder groups and media attention constitutes the main reason to take up reporting, rather than governmental regulation on sustainability reporting.
- Reasons for companies not to report are in most cases linked to the fact that they do not expect much benefit from reporting. Another important reason may be the sensitivity of some of the information that needs to be provided, either in relation to competitors – especially when they are not reporting – or because of legal implications. Reasons for SMEs not to report mainly relate to the associated costs of reporting.

Motivations for (not) reading reports

- An important reason for not reading sustainability reports is the fact that companies' websites are preferred over reports as a source of information. Company statements with regard to policies and issues (such as animal testing or the use of GMOs) are often not included in the reports but are disclosed on the website of the company.
- In general, readers use reports to improve their own understanding of specific sustainability issues related to the company. Reports are also consulted by other companies, competitors and investors, who use the reports to learn about better practices they might apply in their own business and to obtain as much information as possible for their investment decisions. Readers from civil society groups are less interested in this benchmarking, but use the information for research and education.
- Some reader surveys indicate that active campaigning by companies and serious engagement with stakeholders may increase the number of readers of sustainability reports.
- Some of the reader groups may not yet be adequately reached with current sustainability reports, including (part of the) investors, consumers and affected communities. An important question in this respect is also whether sustainability reports are the right communication tools for these target groups. Moreover, regarding the trend of integrated reports, readers argue that there might be a risk that when sustainability information is integrated in annual reports, many target groups will not be reached at all, as, in the first place, many of those never consult annual (financial) reports.
- Investors and analysts are increasingly aware that corporate responsible management is key to good management in general. However, in 2009 only some 20 per cent of the investment funds in the EU included a sustainability component in their criteria. Moreover, those using the sustainability information as a *primary* condition of investment represents only two per cent of the market. Investors need comparable, relevant, material, reliable, comprehensible information, which is linked to financial performance, to risks and to the company strategy, and which is consistent over time. The use of sustainability reports by investors is expected to be limited as they prefer to read questionnaires from analysts, valuation models, regularly updated web-based information and e-mail alerts.
- Civil Society tends to be the most sceptical reader group, although it receives the fact that companies voluntarily make an effort to inform society about social and environmental issues as a positive sign of a company's commitment to improve on those issues. However, the lack of transparency, lack of materiality and green-washing in sustainability reports are seen as important problems. The general opinion is that reports focus too much on good news and topics that are easy to cover and tend not to detail the impact of a company's operations (and supply chain) on issues such as poverty and job creation.

- As internal stakeholders, employees (and trade unions) want to read about social and economic effects of restructuring (employment, effects on SME suppliers, social impacts), health and safety issues, the integration of disabled people, women in executive positions, management payments linked to performance on sustainability issues, and incentives for the purchasing department. For obtaining this information they depend less on public sustainability reporting.

The quality of sustainability reports

- With the increased acceptance of sustainability reporting and a growing number of companies reporting on non-financial issues, standardization becomes more important. Reporting schemes (standards, frameworks and/or guidelines) guide companies through the process of reporting, provide structure to the sustainability report, reduce reporting costs, provide readers with some assurance about the report's quality and make information more comparable between reports.
- Readers from business, civil society and other groups tend to share the same opinions regarding the desired contents and quality of sustainability reports. The main differences lie in how the various reader categories use the reports. According to the different reader groups, transparency, completeness and balance are key indicators of a quality report.
- Different reader groups agree on the view that many reports still lack materiality, are incomplete and are sometimes selective in their content. One of the issues on which improvement is still necessary is the coverage of human rights issues. For companies it can be difficult to determine the scope (range of topics covered) of human rights reporting; it can be difficult to determine how their activities affect human rights directly, through their actions, inactions, operations, products and services, and indirectly through other entities. The balance between good and bad news in many cases favours the positive image of a company, which may result in green-washing.
- Important differences are observed by most of the people interviewed between the reporting quality of large companies and SMEs. One explanation for this could be that large companies may have a professional division dealing with reporting, while SMEs lack the time and financial resources to report.
- International reporting schemes, like the GRI G3 Guidelines and the UN Global Compact COP, are important tools that facilitate making decisions on the content of the report and to further improve the quality of sustainability reports. The GRI Guidelines constitute an important reference for decisions on the content of reports, with a strong emphasis on the GRI performance indicators and less emphasis on the GRI reporting principles. Taking into account reporting principles on content (materiality, stakeholder inclusiveness, completeness etc.) and quality (balance, comparability, accuracy etc.) still constitutes an important challenge for companies, but it is key to the quality of sustainability reporting.

- It is argued that for SMEs none of the existing reporting standards would meet their needs, including the GRI Guidelines. Use of the Guidelines would be too difficult and too extensive. A short, simple and standard form on the Internet with a limited number of topics might do the job for SMEs. This information could be gathered, stored and controlled by an independent authority. However, others argue that there is a “myth” around the concerns that sustainability reporting represents a major obstacle or is too complex to achieve for SMEs. The biggest challenge to SMEs might not be to report for the first time, but to continue reporting. SMEs need encouragement and support from buying multinationals and need to know that what they report on has an impact on buyers and other readers of reports. Experience of the Spanish UNGC Local Network shows that progress of SMEs is possible if they are given the right support and tools. With its Level-C Template (or the ‘Let’s report’ Template created specifically for SMEs), GRI offers an easy way for organizations to prepare a basic GRI sustainability report. The template is prepared to show exactly what a basic GRI report should contain and is based on the requirements in the GRI G3 Guidelines for the basic Application Level C.
- A trend within the growing use of schemes for reporting is the (growing) interest in standardising sector-specific reporting and the use of sector-specific indicators. The involvement of sector-specific reporting guidance may further improve reporting quality.
- From the readers’ perspective, external assurance plays an important role regarding the credibility and reliability of reporting. However, readers are divided on who the best assurance providers are. The civil society readers favour stakeholder representatives over experts and professional assurance providers, perhaps reflecting a belief that interpretations of performance are most reliable when provided by those most directly affected. Moreover, some readers are critical about the real independence of external auditors, contracted by the reporting company. Among European countries, there are signs that assurance is growing in those Member States where the debate on sustainability reporting has already matured.

Stimuli to improve the number and quality of sustainability reports

- Reporting rankings and awards may constitute an interesting stimulus to the uptake of sustainability reporting and the quality of sustainability reports. However, there are no uniform criteria for sustainability reporting awards and there is no standardized ranking for sustainability reports. This complicates a comparison of the different awards and rankings.
- Rankings based on data from sustainability reports enable investors to make informed decisions on more sustainable investments. The fact that, for their research, analysts increasingly make use of data from sustainability reports based on one and the same reporting scheme will motivate companies to start reporting in the same way. At the same time, the use of rankings based on these analyses may also prevent companies from being completely honest and open.

- There is no information available on the effect of the rankings and awards on reporting performance, the quality of the sustainability reports and the number of reports that are published. Further research would have to be conducted to show whether the growing number of reports can (partly) be contributed to the effect of rankings and awards.

Trends in sustainability reporting

- Companies are increasingly using the Internet and web-based applications for the disclosure of their sustainability information. Apart from making the sustainability report available online, companies are also increasingly using web-based techniques such as XBRL, facilitating comparability of quantitative data. The use of web-based techniques is especially important to investors.
- There is an increasing cooperation between the different organisations involved in sustainability reporting. Nearly all of the various platforms and organisations promoting sustainability reporting have developed partnerships with the Global Reporting Initiative. This includes the UN Global Compact, AccountAbility, the Carbon Disclosure Project and many governments and sector organisations.
- In the debate on the future of reporting, integrated reporting is one of the major topics. Again, with regard to this topic, reporting organisations are searching for cooperation, for example in the International Integrated Reporting Committee, which also cooperates with the European Combined reporting Alliance for ESG. The focus of these initiatives is the relationship between companies and investors and the challenges to mainstreaming sustainability issues in investment decisions. A framework is being developed which distinguishes between (1) Key Performance Indicators demonstrating the contribution of non-financial performance to a company's financial performance and value creation, and (2) Social Indicators reflecting civil society's expectations of business.

The (potential) role of public policy instruments

- The EU and its Member States are very active regarding sustainability reporting and public policy instruments on sustainability reporting, which vary widely, in type, focus and actors involved.
- The effect and impact of public policy instruments directed at or influencing reporting practices by companies is difficult to measure. However, governments are increasingly assessing the effects of their policy instruments, like in Denmark and Sweden. These examples show that government policies have definitely contributed to a stronger uptake of sustainability reporting.
- Governments have different opportunities to stimulate sustainability reporting, for example by:
 - Creating instruments to benchmark and recognize good performance.

- Convening with the EU Commission, business, NGOs and other stakeholders (such as the EU Workshops on the Disclosure of ESG information 2009-2010).
 - Profiling and encouraging the use of specific global initiatives that promote reporting (e.g. by referring to these initiatives in sustainability policies or legislation).
 - Partnering with CSR initiatives and participating in the development of instruments (also through funding).
 - Introducing legislation and regulation requiring sustainability reporting by companies.
 - Assisting developing countries in data-collection technologies.
- Governments may play a role against fragmentation, by reinforcing the demand and call for harmonization of guidance, aiming for an international reference level.
 - Governments may set an example by producing a sustainability report in public agencies, by promoting awareness of the benefits of sustainability reporting within government, and by requiring state-owned companies to publish a sustainability report.
 - To a large extent, readers and companies agree on the fact that regulation of the development of sustainability reports, the content of the reports and the verification of these reports (assurance) could offer important benefits when it comes to quality, credibility and comparability of reporting. Public policy instruments are seen as an effective way to improve the uptake and quality of sustainability reporting, as long as these instruments take account of the differences between large companies and SMEs and as long as regulation does not result in a wide variety of national reporting schemes and obligations, hindering comparability and the aggregation of local data in regional or global reports. The need for harmonisation of reporting standards and performance indicators is also stressed by both reporting companies and readers, while realising that a 'one-size-fits-all' approach has its limitations.

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Appendix A Definitions and Descriptions of Terms Used in Sustainability Reporting

- Annual report:** The annual report usually refers to the “glossy” report issued by organisations in order to inform the wider public about all their activities and their financial or non-financial information, usually at the end of (or after) the book year. In practice, it contains the audited financial statements, the auditor's report, management's review of the operations of the entity and its future prospects, cash flow statements and other supporting documents. The annual report may also include the sustainability report (which then is referred to as the ‘integrated’ report) and the corporate governance statement.
- Assurance:** Assurance is as much about checking the process of collecting data as it is about checking the data themselves. To enhance the credibility of their reports, organisations may have systems of internal controls in place, including internal audit functions, as part of their processes for managing and reporting information. These internal systems are important to the overall integrity and credibility of a report. However, the use of external assurance for sustainability reports, in addition to any internal resources, adds credibility.
- External assurance (or ‘hard’ assurance) refers to engagement of a third party to verify aspects of the report, and the reporting company publishing its methodology, conclusions and recommendations. Assurance statements carry a variety of titles: expert opinion, external audit, external assurance, independent assessment of verification (CorporateRegister.com 2009). Furthermore, a variety of approaches are currently being used by report preparers to implement external assurance, including the use of professional assurance providers, stakeholder panels, and other external groups or individuals.
- ‘Soft’ assurance refers to reporting awards and rankings of sustainability awards, where credibility can be added by winning the award or taking a top position in the ranking.
- Balance:** A sustainability report should reflect positive and negative aspects of the organisation's actions, performance, results and trends in an unbiased way. Furthermore the report should be balanced with regard to the factual presentation of the information and the reporting organisation's interpretation of information. It should

include all topics that can influence the decisions of stakeholders in proportion to their materiality, but it should avoid selections, omissions, or presentation formats that are reasonably likely to unduly or inappropriately influence a decision or judgment by the report reader (GRI 2010).

Boundaries:

The boundary for a sustainability report refers to the range of entities (e.g. subsidiaries, joint ventures, sub-contractors, and suppliers) whose performance is covered in the organisation's sustainability report. A sustainability report should cover at least the entities in the value chain over which the reporting organisation has control or significant influence and/or which have significant impacts. The nature of the reporting on the entities may vary depending on whether the reporting organisation exercises control, and to what extent it has influence. However, as a whole, the report boundary should result in a reasonable and balanced picture of the reporting organisation's sustainability performance. The report boundary helps an organisation to understand and communicate which strategic risks and opportunities need to be managed, and the extent of its control or influence over them (GRI 2010).

Comparability:

Comparability is considered necessary for evaluating performance and comparing information reported on economic, environmental, and social performance against the organisation's past performance, its objectives and, to a certain degree, against the performance of other organisations. It enables stakeholders to analyze changes in the organisation's performance over time, and supports analysis relative to other organisations (benchmarking). In a comparable report issues and information are selected, compiled, and reported consistently. Significant variations between reporting periods in the boundary, scope, length of reporting period, or information covered in the report are identified and explained (GRI 2010).

Completeness:

A report is complete when it covers all important topics and subjects related to the core business and the sustainability issues and describes these in enough detail. Completeness primarily refers to dimensions such as scope, boundary, and time. In addition, it refers to practices in information collection (e.g. ensuring that compiled data include results from all sites within defined boundaries) and whether the presentation of information is reasonable and appropriate (GRI 2010).

Materiality:	Organisations are faced with a wide range of topics on which they could report. The information presented should cover topics and indicators that reflect the organisation's significant economic, environmental and social impacts, or topics that would substantively influence the assessments and decisions of stakeholders. Materiality is the threshold at which an issue or indicator becomes sufficiently important to be reported. Beyond this threshold, not all material topics will be of equal importance and the emphasis within a report should reflect the relative priority of these material topics and indicators (GRI 2010).
Sustainability context:	The sustainability context refers to how the data on the given sustainability issues stand up to the company's overall performance. It reflects the coherence between the sustainability issues and the core business of the company (GRI 2010).
Sustainability reporting:	Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development. 'Sustainability reporting' is a broad term considered synonymous with others used to describe reporting on economic, environmental, and social impacts (e.g. triple bottom line, corporate responsibility reporting, CSR reporting etc.), often indicated as 'ESG reporting' or 'reporting on ESG information'. ESG stands for environmental (input and output in terms of energy, water, emissions, waste, climate change etc.), social (leadership, employees, customers, communities etc.) and governance (transparency, independence, compensation, shareholder rights etc.).
Reporting:	Reporting refers to the provision of information within documents such as annual reports etc. (hard-copy or web-based, e.g. downloadable in PDF format). The term 'reporting' then is narrower than the term "disclosure", which is often being used in a broader perspective, and which means the provision of any information regardless of its content, whether narrative or quantitative, and its format (interview, policy document, label, annual report, management report, indicators etc.).
Reporting scheme:	Accepted and demonstrated standards, frameworks and/or guidelines for reporting.

Appendix B **Winners of Sustainability Reporting Awards in 2008 and 2010**

Table 1: CR Reporting Awards 2010

Category	Name of company	Country of Origin
Best Report	Vodafone Group PLC	United Kingdom
Best 1st Time Report	The Walt Disney Company	United States
Best SME Report	RecycleBank LLC	United States
Best Integrated Report	Novo Nordisk A/V	Denmark
Best Carbon Disclosure	Hewlett Packard Company	United States
Creativity in Communication	Coca Cola Enterprises Inc.	United States
Relevance and Materiality	Vodafone Group PLC	United Kingdom
Openness and Honesty	Virgin Media Inc.	United Kingdom
Credibility through Assurance	Banco Bradesco	Brazil

Source: <http://www.corporateregister.com/crra/>

Table 2: GRI Readers' Choice Awards 2008

Category	Name of company	Country of Origin
Best Report (all stakeholder groups)	Petrobras	Brazil
Best report (as judged by media)	Gas Natural SDG	Spain
Best report (as judged by financial markets)	ABN AMRO India	India
Best report (as judged by civil society)	Petrobras	Brazil
Best report (as judged by employees)	ITC	India
Best report – Non-Business Organisation	Fundacion Empredimientos Rurales Los Grobos	Argentina
Best report – Not-so-big Business	Frigoglass	Greece
Best report – Non-OECD country	TGC-5	Russia

Source:

<http://www.globalreporting.org/NewsEventsPress/ReadersChoiceAwards/TheWinners.htm>

Table 3: GRI Readers' Choice Awards 2010

Category	Name of company	Country of Origin
Engage Award	Banco do Brasil	Brazil
Civil Society Award	Vale	Brazil
Value Chain Award	Natura Cosméticos	Brazil
Investor Award	Banco do Brasil	Brazil
Most Effective Report Award	Banco Bradesco	Brazil
GRI Readers' Choice Award	Banco do Brasil	Brazil

Source: Brochure "The GRI Readers' Choice Awards 2010", accessible through:

http://www.globalreporting.org/NR/rdonlyres/67447E9A-76B4-44A4-B503-632982F7F10C/4216/20100510_RCAbrochure_toprint_180510.pdf

Appendix C Schemes and Guidance for Sustainability Reporting and Assurance

In this overview four categories of schemes are presented, with the schemes in alphabetic order and per scheme a general description and the source (website) for more information. Where information is available, the use of the scheme is also indicated (if available, in numbers or names of companies using them). Where relevant, cooperation or links between schemes and organisations are given.

I. Schemes and guidance for sustainability reporting

1. A. Carbon Disclosure Project

General description: The Carbon Disclosure Project (CDP) is a global climate-change reporting system launched in 2000, to accelerate solutions for climate change by putting relevant information at the heart of business, policy and investment decisions. CDP operates in most of the major economies worldwide and partners with organisations worldwide to accelerate carbon reporting and emission reductions. CDP also provides a global process for supply chain disclosure, to better understand how suppliers are addressing climate change and working to reduce their greenhouse gas emissions. This helps companies to extend their own carbon disclosure into their supply chain.

Use of the scheme: The number of responding companies grew from 235 in 2003 to 2,456 in 2009. These organisations, in some 60 countries around the world, now measure and disclose their greenhouse gas emissions and climate change strategies through CDP, in order to enable them setting reduction targets and making performance improvements. Over 50 companies currently work with the CDP on their corporate supply chain.

Links to other initiatives: CDP and GRI have published a document explaining the similarities and differences between the GRI's Reporting Guidelines and CDP's 2010 Questionnaire, including the Supplier Module. The document outlines how reporting companies can efficiently use or adapt the same data in both reporting processes.

Source: <https://www.cdproject.net/en-US/Pages/HomePage.aspx>

B. Water Disclosure Project

General description: Similar to the Carbon Disclosure Project, the global Water Disclosure (WD) Project helps businesses and institutional investors to better understand the risks and opportunities associated with water scarcity and other water-related issues, including greater demand for water, shrinking glaciers and changing precipitation patterns that are likely to result in drought and flooding. The

WD Project will ask companies to measure and disclose information on water usage, the risks and opportunities occurring in their own operations and supply chains as well as their water management and improvement plans.

Use of the scheme: The findings of the project will be launched at the end of 2010.

Source: <https://www.cdproject.net/water-disclosure>

2. Connected Reporting Framework

General description: The Connected Reporting Framework (CRF) is one of the achievements of the Accounting for Sustainability Project (A4S) of the Prince of Wales. The project aims to provide practical guidance and tools to help ensure that sustainability becomes an integral part of an organisation's day-to-day operations. The project focuses on developing systems to help organisations take into account, and report, the wider social and environmental costs of their actions. The CRF is a reporting model to demonstrate how all areas of organisational performance can be presented in a connected way, reflecting the organisation's strategy and the way it is managed. This rather new framework is not prescriptive, in order to avoid the provision of irrelevant information and a 'one-size-fits-all' approach, but the report should contain the following elements:

1. An explanation of how sustainability is connected to the overall operational strategy of an organisation and the provision of sustainability targets, to ensure and demonstrate that sustainability issues are taken into account when making investment decisions.
2. Five key environmental indicators, which all organisations should consider reporting: greenhouse gas emissions, energy usage, water use, waste and significant use of other finite resources.
3. Other key sustainability information should be given where the business or operation has material impacts.
4. Industry benchmarks for the key performance indicators, when available.
5. The up-stream and down-stream impact of the organisation's products and services: the sustainability impacts of its suppliers and the use of its products or services by customers and consumers.

Links to other initiatives: A4S is one of the co-founders of the International Integrated Reporting Committee (IIRC), see scheme [No.8].

Source: <http://www.sustainabilityatwork.org.uk/strategy/report/0>

3. Energy Industry Sustainability Reporting Guidelines

General description: The International Petroleum Industry Environmental Conservation Association (IPIECA) is comprised of oil and gas companies and associations from around the world. Founded in 1974 following the establishment of the United Nations Environment Programme (UNEP), IPIECA provides one of the industry's principal channels of communication with the United Nations. IPIECA has

developed good-practice guidelines specifically for the oil and gas industry, as the measurement and reporting of greenhouse gas (GHG) emissions is becoming more widespread. But the methodologies can be complex and it can be difficult to compare data, because practices vary between countries, industries and companies. IPIECA is the single global association representing both the upstream and downstream oil and gas industry on key global environmental and social issues including oil spill preparedness and response; global climate change; health; fuel quality; biodiversity; and social responsibility.

Links to other schemes: The 2003 IPIECA guidelines (currently being revised for a 2010 edition) set out reporting practices for the energy industry, consistent with the Greenhouse Gas (GHG) Protocol [nr. 6].

Use of the scheme: many companies in the Petroleum Industry already make use of these reporting guidelines: for example BP, BHP Billiton, Exxon-Mobil and Shell.

Source: <http://www.ipieca.org/topic/climate-change/measuring-and-reporting>

4. Forest Footprint Disclosure Project

General description: The Forest Footprint Disclosure Project (FFD Project) is a new initiative, backed by 45 financial institutions, created to help investors identify how an organisation's activities and supply chains contribute to deforestation, and to link this 'forest footprint' to their value. The FFD Project was launched on 15 June 2009, together with the Global Forest Footprints Report. The 2010 cycle of the Forest Footprint Disclosure Project was started on 8 June 2010.

Source: <http://www.forestdisclosure.com/>

5. Global Reporting Initiative's Sustainability Reporting Guidelines

General description: The Global Reporting Initiative (GRI) is a network-based organisation that has pioneered the development of the world's most widely used sustainability reporting scheme. The cornerstone of the scheme is the Sustainability Reporting Guidelines. The first version of the Guidelines was released in 2000. In 2002, the second version known as the "G2" was already being used by organisations all over the world. The third generation of Guidelines ("G3") was launched in 2006. The GRI sets out the reporting principles and guidance (for defining content, quality⁷⁰ and boundary) and Standard Disclosures that should be included in sustainability reports. Standard Disclosures include 1) disclosures on an organisations' strategy, profile and governance (Strategy and Profile), 2) disclosures on an organisations' Management Approach, and 3) (more than 30)

⁷⁰ Principles for defining content are stakeholder inclusiveness, completeness, sustainability context and materiality. Principles for defining quality are balance, comparability, accuracy, timeliness, clarity and reliability.

performance indicators that organisations can use to measure and report their economic, environmental, and social performance.

Since the release of the G3 Guidelines, stakeholder feedback has suggested that more guidance and refinement is needed for certain fields. Based on this response, GRI initiated multi-stakeholder projects in the fields of Community Impacts, Gender, Human Rights and Content & Materiality for incremental updates of the framework, resulting in G3.1. One of the major innovations in the third generation of the G3 was the identification of principles that define report content and associated tests. Within these principles for defining content, a principle of materiality was introduced. In the first quarter of 2011 additional guidance on content and materiality will be available when G3.1 will be launched. It creates a protocol defining a process on how to use the four principles for defining report content (materiality/stakeholder inclusiveness/sustainability context, and completeness) to select the material issues and indicators for a report.

Other components of the framework include Sector Supplements (unique indicators for industry sectors) and National Annexes (unique country-level or regional information). Furthermore, the GRI Guidelines are applicable to organisations of any size or type, and from any sector or geographic region. GRI defines three Application Levels, A, B and C, which communicate to the readers of the report to what extent the G3 Guidelines have been utilized in the sustainability report⁷¹. They are intended to provide GRI reporters with a pathway in which they can continuously improve their reporting. These levels can be self-declared, third-party-checked and/or GRI-checked, each with the option of recognizing external assurance (“+”).

GRI supports SMEs in general through the ‘Learning Service area’ launched in 2006, in which GRI has developed its own initiatives on the basis of researched and collected information from former initiatives, and through the Learning Publication ‘Lets Report! Step-by-step guidance to prepare a basic GRI sustainability report’. The publication includes a reporting template – the so called “The Lets Report! Template” – which is available in 15 languages and downloadable from the GRI website. Related to supply chains GRI supports SMEs in the GANTSCh Program (Global Action Network for Transparency in the Supply Chain) (GRI 2010).

Use of the scheme: In 2009, globally almost 1,400 reports were produced according to GRI Guidelines, of which 580 were produced by European companies.

Links to other schemes and initiatives⁷²: GRI provides a consolidated reporting framework that builds on:

- Relevant internationally accepted legal frameworks, such as ILO Conventions, human rights conventions, and OECD Conventions. In 2008,

⁷¹ Besides the application levels A, B and C (with or without the “+”), the application level of registered reports may be “not defined”, “undeclared”, in “accordance” or the report may be accompanied with a “content index only”.

⁷² For GRI’s Alliances and Synergies, visit: <http://www.globalreporting.org/AboutGRI/Alliances>

GRI and the UNCTAD signed a Memorandum of Understanding (MoU) for a Programme of Cooperation in promoting sustainability reporting in developing countries and transition economies.

- Relevant multilateral environmental agreements, such as UNEP. Concrete examples of joint products are the GRI Financial Services Sector Supplement and the Carrots and Sticks report on regulation on sustainability reporting. GRI and UNEP have a long standing MoU (Memorandum of Understanding).
- The most widely used normative frameworks and principles, such as UN GC Principles (for the recently formed alliance with the UNGC see scheme [No. 9]), the OECD Guidelines for Multinational Enterprises, and ISO 26000. The MoU signed in December 2010 with the OECD established a program to promote understanding and use of the two instruments, to exploit their synergies, and to develop cooperation in areas of mutual interest (linkage documents are available at the GRI website).
- Theme-specific (technical) guidance, such as WRI/WBCSD GHG Protocol, and Human Rights. GRI's current revision of its Guidelines (G3.1) addresses the policy framework put forward by the United Nations Special Representative of the Secretary General on Business and Human Rights, John Ruggie, and formulates disclosure expectations in the field of human rights due diligence and access to grievance and remedy mechanisms.
- Finally, the GRI has synergies with the UNCTAD and the Earth Charter, and is involved in the International Integrated Reporting Committee (IIRC) (the GRI is one of the co-founders, shares the Secretariat, and is represented in the Governance Bodies of IIRC).

Source: <http://www.globalreporting.org>

6. Greenhouse Gas Protocol

General description: The Greenhouse Gas Protocol (GHG Protocol) was established some 10 years ago by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). It is an international accounting tool for government and business leaders to understand, quantify, and manage greenhouse gas emissions. The GHG Protocol also offers developing countries an internationally accepted management tool to help their businesses to compete in the global marketplace and their governments to make informed decisions about climate change. The GHG Protocol Corporate Standard provides standards and guidance for companies and other organisations preparing a GHG emissions inventory. It covers the accounting and reporting of the six greenhouse gases covered by the Kyoto Protocol — carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydro fluorocarbons (HFCs), per fluorocarbons (PFCs), and sulphur hexafluoride (SF₆).

Use of the scheme and link to other initiatives: The GHG Protocol Initiative's vision is to harmonize GHG accounting and reporting standards internationally to ensure that different trading schemes and other climate-related initiatives adopt consistent approaches to GHG accounting. It already provides the accounting framework for nearly every GHG standard and program in the world – from the International Standards Organisation to The Climate Registry – as well as hundreds of GHG inventories prepared by individual companies. Furthermore, on 20 January 2010, 60 corporations⁷³ started measuring the greenhouse gas emissions of their products and supply chains by road testing a new global framework that is part of the Greenhouse Gas Protocol Initiative: these two new GHG Protocol standards – the Product Life Cycle Accounting and Reporting Standard and the Scope 3 (Corporate Value Chain) Accounting and Reporting Standard – provide methods to account for emissions associated with individual products across their life-cycles and emissions associated with corporations across their value chains.

Source: <http://www.ghgprotocol.org/> and <http://www.ghgprotocol.org/sixty-corporations-begin-measuring-emissions-from-products-and-supply-chains>

7. International Integrated Reporting Committee's (IIRC) Integrated Reporting Framework (*Under development*)

General description: The IIRC is developing a draft integrated reporting framework which brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format. An integrated report will provide a more complete view of a company's performance for both internal and external stakeholders by integrating both material financial and ESG information structured around the organization's strategic objectives, its governance and business model.

The objectives for an integrated reporting framework are to:

- a. support the information needs of long-term investors, by showing the broader and longer-term consequences of decision-making;
- b. reflect the interconnections between environmental, social, governance and financial factors in decisions that affect long-term performance and condition, making clear the link between sustainability and economic value;
- c. provide the necessary framework for environmental and social factors to be taken into account systematically in reporting and decision-making;
- d. rebalance performance metrics away from an undue emphasis on short-term financial performance; and
- e. bring reporting closer to the information used by management to run the business on a day-to-day basis.

⁷³ Airbus S.A.S, AkzoNobel, BASF SE, Bloomberg LP, Deutsche Telekom AG, Levi Strauss & Co., Mitsubishi Chemical Corporation, PwC (Hong Kong), Procter & Gamble Eurocor, Shell International Petroleum Company Ltd., Siemens AG, Veolia Water and many others.

Links to other initiatives: The IIRC has been co-established by the Prince's Accounting for Sustainability Project and the Global Reporting Initiative, together.

Source: www.integratedreporting.org

8. International Standards of Accounting and Reporting

General description and links to other schemes: The International Standards of Accounting and Reporting (ISAR) is an initiative of the United Nations Conference on Trade and Development (UNCTAD) regarding corporate transparency and accounting. It is often linked to other initiatives and provides guidance for reporting through:

1. A manual for the Preparers and Users of Eco-efficiency Indicators⁷⁴, an initiative of UNCTAD and the Intergovernmental Working Group of Experts on ISAR (2004). The manual enables enterprises to provide information on environmental performance vis-à-vis financial performance in a systematic and consistent manner over periods of time. The manual covers the technical issues of recognition, measurement and disclosure of environmental transactions and variables. It also suggests the issues to be reported and the format and structure of disclosure. A reporting framework (such as GRI) can provide additional guidance on the issues to be reported, the structure and the format of the report.
2. Guidance on corporate responsibility indicators in annual reports accounting by Small and Medium-sized Enterprises. The aim is to assist developing countries and countries with economies in transition in addressing the accounting and financial reporting needs of SMEs. Accounting and reporting for SMEs is a critical component of a broader enabling environment that allows SMEs to compete, grow, access finance and attract investors. To meet its objectives, UNCTAD works through ISAR's broad range of international experts to develop guidance for SMEs that a) meets their accounting and financial reporting needs; b) is simple, understandable and user-friendly; c) produces useful management information; d) is flexible enough to accommodate the growth of business; and e) increases the potential of some SMEs to adopt International Financial Reporting Standards (IFRS) at some point in future. ISAR produced two separate guidance documents for two categories of SMEs: Level 2 (larger SMEs) and Level 3 (smaller SMEs).
3. Implementation of IFRS issued by the International Accounting Standards Board (IASB). The aim is to assist developing countries and countries with economies in transition to improve their financial accounting and reporting practices in order to better attract investment and better manage existing resources. The objective of the research is to draw lessons learned from the practical issues of IFRS implementation and to share these lessons with

⁷⁴ An eco-efficiency indicator is the ratio between an environmental and a financial variable.

Member States that are either implementing IFRS or that are considering doing so in the future.

4. Corporate Governance Disclosure (CGD). The aim here is to assist developing countries and countries with economies in transition to improve their ability to attract investment capital by improving their enterprises' communications with stakeholders, and by identifying and promoting good practices in CGD. ISAR produced the publication *Guidance on Good Practices in Corporate Governance Disclosure*.

Source: <http://www.unctad.org/Templates/StartPage.asp?intItemID=2531&lang=1>

9. UN Global Compact Communication on Progress

General description: A Communication on Progress (COP) is a public disclosure to stakeholders (e.g. investors, consumers, civil society, governments etc.) on progress made in implementing the 10 United Nations Global Compact (UNGC) Principles, in the areas of human rights, labour, environment and anti-corruption and in supporting broad UN development goals.

Launched in 2000, the UNGC is both a policy platform and a practical framework for companies that are committed to sustainability and responsible business practices. It is a multistakeholder leadership initiative, which seeks to align business operations and strategies and to catalyze actions in support of broader UN goals. All business participants of the UNGC have to produce an annual COP, which enhances accountability and drives continuous improvement. The objective is that companies mainstream the COP in their existing communication methods. Companies are expected to progress towards direct communications with stakeholders, use of standard reporting guidelines (e.g. the framework of the GRI) and ultimately integrated financial and sustainability reporting. The Practical Guide to Communication on Progress guides companies in creating, sharing and posting of a COP, and provides them with practical examples of how companies are communicating progress. Also included are helpful definitions, tips on where to begin, examples and relevant GRI indicators.

While the format for a COP is flexible, it must contain three important elements:

1. A statement by the CEO (or equivalent) expressing continued support for the Global Compact and renewing the participant's ongoing commitment to the initiative and its principles.
2. A description of practical actions (activities and, if applicable, policies) the company has taken to implement the GC Principles and to support broader development goals. During the first five years of participation, a COP must address at least two of the Global Compact's principal issue areas (human rights, labour, environment and anti-corruption). After five years all four must be addressed.
3. A measurement of outcomes (e.g. identifying targets and defining performance indicators).

The GRI level C template, with an additional 'statement of continued support for the Global Compact', is also accepted as a COP.

New business participants (joined on or after 1 July 2009) are given one year from the date of joining to prepare and submit their first COP. Participants that have joined before 1 July 2009 have two years to submit their first COP.

A new Differentiation Framework has entered into a three-month test phase with wide consultation until the end of 2010, to finalize the criteria and refine the system. This Framework recognizes the differences between companies of different sizes and experience. It facilitates a better assessment of sustainability performance, and it aims to mainstream sustainability reporting and improve transparency and disclosure. The Framework has three levels: a basic level, intermediate level and advanced level. A *basic* (online) COP Template has been designed to guide smaller and less experienced companies to communicate their progress by following simple steps and suggested topics that meet a basic level of disclosure in accordance with COP requirements. At the *intermediate* level companies use the standard COP process, cover all UNGC principles and communicate on progress using accepted standards such as the GRI Guidelines. At the *advanced* level companies are asked to complete an online questionnaire covering the content of their COP and assessing their implementation of the GC principles. Furthermore, at this stage, the Framework follows many aspects of the *Global Compact's Blueprint for Corporate Sustainability Leadership*, and offers stakeholders a public resource to benchmark sustainability performance and disclosure against global best practices.

Use of the scheme: Since its official launch on 26 July 2000, the initiative has grown to more than 7,700 participants, including over 6,000 businesses, both (large) companies and SMEs, in 130 countries around the world. Since its start nearly 1,700 business partners have delisted. All participants have to provide a COP each year as a requirement of membership. This should lead to the same number of COPs published annually, however, around 25 per cent of the (European) business participants do not manage to deliver their COPs before the relevant deadline, being overtime from several days to almost a year. The COP may vary from a 'two-pages statement' on the 10 UNGC principles to a real sustainability report.

Links to other initiatives: The GRI G3 Guidelines (level C template, with an additional 'statement of continued support for the Global Compact') can be used to assist the production of the COP. In June 2010 the cooperation between UNGC and GRI was formalised further by joining forces in a new alliance. This alliance allows both initiatives to focus on their respective and complementary strengths, and will build "a universal framework for corporate sustainability performance and disclosure, aiming to transform business practices on a global scale". In this alliance GC will adopt the GRI Guidelines as the recommended reporting framework for companies to communicate on progress made. At the same time, the GRI will integrate the 10 Principles and issue areas of GC centrally in the next iteration of the Reporting Guidelines.

Source: <http://www.unglobalcompact.org/cop/index.html>

II. Assurance schemes for sustainability reports

10. The AA1000 Assurance Standard (AA1000AS)

General description: The AA1000 Assurance Standard (AA1000AS) provides a methodology for assurance practitioners to evaluate the nature and extent to which an organisation adheres to the AccountAbility Principles (see also [no. 14]).

Link to other schemes: AA1000AS is compatible with the ISAE 3000 methodology [no. 10].

Use of the scheme: The use has increased since 2005, being referenced in 36 per cent (up from 10 per cent) of assurance reports among the N100 in 2008 (KPMG 2008). According to Corporate Register the standard is being used by around 70 companies.

Source: <http://www.accountability.org/aa1000series>

11. International Standard for Assurance Engagement

General description: The International Standard for Assurance Engagement (ISAE 3000) is standard employed by the financial accounting body to provide assurance on non-financial matters. The ISAE 3000 has become obligatory for accounting firms doing corporate responsibility assurance if there is no national alternative.

Use of the scheme: As a result of the obligation the use of the standard has increased considerably since 2005 and now reflects a strong position of the major accounting organisations in assuring reports.

Source: http://www.accountability.org/uploadedFiles/Issues/ISAE_3000.pdf

III. Schemes for financial reporting

12. European Federation of Financial Analysts Societies Guidelines

General description: The European Federation of Financial Analysts Societies (EFFAS) Centre for Corporate Reporting has drafted guidelines for corporate reporting (forthcoming paper) that consider comparability, consistency, completeness and reliability as the most important features of a standardised reporting format. EFFAS is the European umbrella organisation of national analyst societies. It comprises 25 members representing more than 14,000 investment professionals in the areas of Equity and Bond Research, Asset Management as well as Investment Advice. EFFAS supports a standard reporting format for

financial reporting, especially in the area of regulated markets such as securities markets. Moreover, the EFFAS Commission on ESG and DVFA (*Deutsche Vereinigung für Finanzanalyse und Asset Management*) will publish the Exposure Draft (ED) of KPIs for ESG, the standard reporting scheme for ecological, social and corporate governance aspects built on requirements of investment professionals. The ED is the result of a 2 year process which included tight collaboration with a network of investment professionals and experts around the globe. The final version of the ED will be published later in 2010.

Source: <http://effas.net/>

13. International Financial Reporting Standards

General description: The International Financial Reporting Standards (IFRS) are issued by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) [nr.8]. At the beginning of 2005, an unprecedented number of enterprises and countries around the world adopted IFRS, issued by the International Accounting Standards Board (IASB), as their basis for preparing financial statements.

Source: <http://www.unctad.org/Templates/Startpage.asp?intlItemID=2531>

14. World Intellectual Capital Initiative

General description: The World Intellectual Capital Initiative (WICI), the world's business reporting network, is a private/public-sector collaboration aimed at improving capital allocation through better corporate reporting information. In 2008, WICI published a comprehensive information framework and XBRL (eXtensible Business Reporting Language)⁷⁵ taxonomy to help companies improve communications with investors and other stakeholders about business strategy and performance. WICI's mission is to develop a voluntary global framework for measuring and reporting corporate performance to shareholders and other stakeholders. It is based on a combination of a PwC reporting framework and Key Performance Indicators for ESG Issues by the Society of Investment Professionals in Germany.

Source: <http://www.worldici.com/index.php>

IV. Schemes for environmental and social management and performance

15. AA1000 Standards

⁷⁵ XBRL is a freely available, market-driven, open and global standard for exchanging business information. It is a language for the electronic (online) communication of business and financial data. For more information visit: <http://www.xbrl.org/WhatIsXBRL/>.

General description: AccountAbility's AA1000 series are principle-based standards to help organisations become more accountable, responsible and sustainable. They address issues affecting governance, business models and organisational strategy, as well as providing operational guidance on sustainability assurance and stakeholder engagement. The AA1000 standards are designed for the integrated thinking required by the low carbon and green economy, and support integrated reporting and assurance.

The AA1000 standards are used globally and consist of:

1. The AA1000 AccountAbility Principles Standard (AA1000APS), which provides a framework for an organisation to identify, prioritise and respond to its sustainability challenges. The principles have been used by leading companies since 2008 and are compatible with other sets of principles in the marketplace, such as the UN Global Compact, GRI and ISO 26000.
2. The AA1000 Assurance Standard (AA1000AS), see [nr. 9]
3. The AA1000 Stakeholder Engagement Standard (AA1000SES), which provides a framework to help organisations ensure stakeholder engagement processes are purpose driven and robust, and deliver results. Since 2005.

Source: <http://www.accountability.org/aa1000series>

16. Environmental Management and Audit Scheme

General description: The Environmental Management and Audit Scheme (EMAS) is an Environmental Management System (EMS), under which companies and other public organisations evaluate, manage and continuously improve their environmental performance. The core elements are performance, credibility and transparency. Participation is voluntary and extends to public and private organisations operating in the European Union and the European Economic Area (EEA) — Iceland, Liechtenstein, and Norway.

EMAS has been operative since 1995. It was originally restricted to companies in industrial sectors. Since 2001 EMAS has been open to all economic sectors including public and private services. EMAS was strengthened by the integration of EN/ISO 14001 as the environmental management system required by EMAS, by adopting an attractive EMAS logo to signal EMAS registration to the outside world, and by considering more strongly indirect effects such as those related to financial services or administrative and planning decisions. The latest revision (EMAS III) came into effect on 11 January 2010. An EMAS registration contains the following steps:

1. Adopt an environmental policy.
2. Conduct an environmental review.
3. Establish an effective environmental management system.
4. Carry out an environmental audit.

5. Provide a statement of its environmental performance (which lays down the results achieved against the environmental objectives and the future steps to be undertaken in order to continuously improve the organisation's environmental performance).

The environmental review and audit procedure and the environmental statement must be approved by an accredited EMAS verifier, and the validated statement needs to be sent to the EMAS Competent Body for registration and made publicly available before an organisation can use the EMAS logo.

Use of the scheme: Currently, more than 4,400 organisations and approximately 7,600 sites are EMAS-registered.

Source: http://ec.europa.eu/environment/emas/about/summary_en.htm

17. GoodCorporation Standard

General description: The GoodCorporation Standard was established in June 2001 and developed in partnership with the Institute of Business Ethics. The Standard is reviewed and updated every three years. It is based on a core set of principles that define a framework for responsible management in any type of organisation. Under each principle, the Standard sets out management practices that can be assessed to determine how well the organisation works in reality. GoodCorporation uses an independent assessment process that looks at four levels of evidence for each individual practice and assesses them against a five-point scale.

Use of the scheme: Since its launch, over 130 organisations have been assessed using the GoodCorporation Standard in more than 40 countries worldwide.

Source: <http://www.goodcorporation.com/>

18. GS SUSTAIN

General description: GS SUSTAIN is a unique global equity strategy developed by Goldman Sachs that brings together ESG criteria, broad industry analysis and return on capital to identify long-term investment opportunities. Goldman Sachs has been involved in numerous initiatives on ESG research and performance, especially in the context of integrating ESG in finance (for example UNEP FI, GRI, UNPRI).

Source: <http://www2.goldmansachs.com/ideas/environment-and-energy/goldman-sachs/gs-sustain/index.html>

19. International Chamber of Commerce Business Charter

General description: The Business Charter for Sustainable Development of the International Chamber of Commerce (ICC) provides a basic framework of reference for action by individual corporations and business organisations throughout the

world. It has been recognized as a complement to environmental management systems and its 16 principles are relevant and useful guidelines for many companies establishing responsible environmental programs.

Source: <http://www.iccadr.com/>

20. IFC's Policy and Performance Standards on Social and Environmental Sustainability

General description: The International Finance Corporation (IFC) has a long history with environmental and social standards. The institution adopted its Environmental and Social Safeguard Policies and its Disclosure Policy in 1998. Since 2006, IFC has applied the Policy and Performance Standards on Social and Environmental Sustainability to all investment projects to minimize their impact on the environment and on affected communities.

Source: <http://www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards>

21. ISO 14000

General description: The ISO 14000 family addresses various aspects of environmental management. ISO 14001:2004 (requirements) and ISO 14004:2004 (general guidelines) deal with Environmental Management Systems (EMS). The other standards and guidelines in the family address specific environmental aspects, including labelling, performance evaluation, life-cycle analysis, communication and auditing.

Source:

http://www.iso.org/iso/iso_catalogue/management_standards/iso_9000_iso_14000/iso_14000_essentials.htm

22. ISO 26000

General description: ISO 26000:2010 is not a management system standard, and it is not intended or appropriate for certification purposes or regulatory or contractual use. It is however designed to assist organisations in contributing to sustainable development and to encourage them to go beyond legal compliance, recognizing that compliance with law is a fundamental duty of any organisation and an essential part of their social responsibility. It is intended to promote common understanding in the field of social responsibility, and to complement other instruments and initiatives for social responsibility, not to replace them. It provides guidance to all types of organisations, regardless of their size or location, on:

- Concepts, terms and definitions related to social responsibility.
- The background, trends and characteristics of social responsibility.
- Principles and practices relating to social responsibility.
- The core subjects and issues of social responsibility.

- Integrating, implementing and promoting socially responsible behaviour throughout the organisation and, through its policies and practices, within its sphere of influence.
- Identifying and engaging with stakeholders and
- Communicating commitments, performance and other information related to social responsibility.

Source: http://www.iso.org/iso/catalogue_detail?csnumber=42546

23. London Benchmarking Group Model

General description: The London Benchmarking Group (LBG) International is a global network of 150 companies using the LBG Model to improve the management, measurement and reporting of Corporate Social Investment (CSI). It brings together national groups to promote the LBG Model as the international standard for measuring and managing CSI. The LBG Model was developed over 12 years ago by six leading companies in the UK that wanted to be able to better account for and benchmark their community contributions. The LBG Model is a management framework for CSI professionals to:

- Value inputs.
- Assess outputs.
- Measure the impact of corporate contributions to community programs. Adopting this approach improves program results and enhances reporting to key stakeholders.

Source: <http://www.csisolutions.co.za/lbg-model.php>

24. OECD Guidelines for Multinational Enterprises

General description: The OECD Guidelines are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. The OECD Guidelines are the most comprehensive instrument in existence today for corporate responsibility multilaterally agreed by governments. Adhering governments – representing all regions of the world and accounting for 85 per cent of foreign direct investment – are committed to encouraging enterprises operating in their territory to observe a set of widely recognised principles and standards for responsible business conduct wherever they operate. The Guidelines were completed in June 2000 but are currently being revised.

Source: www.oecd.org/daf/investment/guidelines

25. Principles for Responsible Investment

General description: The Principles for Responsible Investment (PRI) is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. The PRI provides a framework for investors to give appropriate consideration to ESG issues which can affect the performance of investment portfolios. The Principles are voluntary and not prescriptive, but instead provide a menu of possible actions for incorporating ESG issues into mainstream investment decision-making and ownership practices. Principle six of the PRI asks each signatory to 'report on their activities and progress towards implementing the Principles'. One of the main tools used to support signatories in their implementation of this Principle is the PRI's annual Reporting & Assessment survey. The PRI Reporting and Assessment survey is a learning tool. It provides an opportunity to identify best practices, interesting developments and ideas for practical implementation; it serves as an accountability mechanism; and it provides an 'off-the-shelf' reporting framework that can be used by signatories to report to clients, beneficiaries, customers and the broader public on their responsible investment activities.

Source: <http://www.unpri.org/>

26. SA8000 Standard

General description: The SA8000 Standard is an initiative of Social Accountability International (SAI). This is a global, multi-stakeholder, standard-setting organisation whose mission is to advance the human rights of workers around the world. The SA8000 Standard is an auditable certification standard based on international workplace norms of International Labour Organisation (ILO) conventions, the Universal Declaration of Human Rights and the UN Convention on the Rights of the Child. It is a social standard and a recognized benchmark among the voluntary codes and standards initiatives that employers, including well-known brands, use to measure their own performance and responsibly manage their supply chains. It is applicable to virtually all industrial sectors.

Source: <http://www.sa-intl.org>

27. UNEP Finance Initiative

General description: The UNEP Finance Initiative (FI) is a global partnership between UNEP and the financial sector. Over 190 institutions, including banks, insurers and fund managers, work with UNEP to understand the impacts of environmental and social considerations on financial performance. All financial institutions wishing to join the UNEPFI must adhere to one of the two Statements (aspirational, voluntary declarations of intent) depending on their core business:

- UNEP Statement by Financial Institutions on the Environment and Sustainable Development.
- UNEP Statement of Environmental Commitment for the Insurance Industry.

Use of the scheme: Nearly 200 financial institutions from around the globe are signatories to the principles outlined in the UNEP FI Statements.

Source: <http://www.unepfi.org/>

Appendix D Country Case Studies: Public Policy Instruments for Sustainability Reporting

- 1. France**
- 2. United Kingdom**
- 3. Denmark**
- 4. South Africa**
- 5. United States of America**

Each factsheet consists of an overview of:

A. Instruments with mandatory implications for sustainability reporting

B. Instruments with voluntary implications for sustainability reporting

If available, the following items of each instrument are discussed. Where no information is available, or the information is not relevant, it is left out:

- *Name of the instrument, which can also be the number of the law.*
- *Date or year when instrument became effective.*
- *Type of instrument, for example law or guideline, or a short description of it.*
- *The law or regulation that implements or enforces the instrument.*
- *The department or organisation that issued the instrument.*
- *The aim of the instrument.*
- *The companies or sectors that are targeted by the instrument, with number of companies.*
- *The requirements of the instrument.*
- *The consequences or sanctions for companies that do not comply.*
- *Criticism by stakeholders;*
- *Source for more information on the instrument, in most cases the website.*

1 France

A. Instruments with mandatory implications for sustainability reporting

1. French Social Report (*Bilan Social*)

Effective since: 7 July 1977.

Type of instrument: law.

Issued by: French Parliament.

Aim: To show compliance with labour regulation.

Target companies/sector: All companies with more than 300 employees.

Requirements: Providing a social review based on a list of (100) social data.

Consequences when not complying: No sanctions for non-compliance are foreseen.

Source: http://www.rsenews.com/public/dossier_social/bilan_societal.php?rub=2

2. New Economic Regulation Act (“NER” Act; *Nouvelle Loi Économique*).

Effective since: 15 May 2001; expansion of the measures of Grenelle 1 Act, article 53 (3 August 2009) and Grenelle 2 Act, article 83 (12 July 2010).

Type of instrument: Law no. 2001-420, Art. 116 Amendment (2001) and enforcement order (2002).

Aim: To encourage companies to establish the tools necessary to measure the social and environmental impact of their activities in a strategic way. The law provides a list of social and environmental issues to be addressed in annual management reports and accounts, and to report on social and environmental performance.

Target companies/sector: All French corporations listed on the “*premier marché*”, those with the largest market capitalizations, which in many cases are holding companies, as they have specific responsibilities to the market. Through Grenelle 1 the measures are extended and apply to unlisted companies whose annual report and total number of employees exceed certain thresholds. Subsidiaries controlled by parent companies are also required to disclose information. Grenelle 2 extends the NER again. Now the obligations are for all the companies of 500 employees and more, to present a social and environmental report.

Requirements: Addressing social and environmental issues integrated into annual reports, using a list of 40 indicators, of which many are inspired by the GRI performance indicators. Some indicators are taken from the French Social Report. The indicators include those related to human resources, community issues and engagement, labour standards and key health and safety and environmental issues. The law expects companies to report on all their operations, in France as well as

internationally. However, strictly speaking it only requires companies to report on the holding company.

Consequences when not complying: The law does not specify the extent or quality of the information to be published, and no enforcement mechanism is currently active when companies do not comply, which makes the law a soft law. However, currently a debate is going on, which must lead to a future enforcing decree, which will give the details of the information to be published.

Criticism: The (original) text of the article was subjected to dialogue and consultation by employers' organisations, trade unions and NGOs. These groups found it difficult to formalize a text applicable to all companies. When the text was made public with the decree of 20 February 2002 it was generally negatively perceived by companies (KPMG et al. 2010).

Source:

<http://legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000000223114#LEGIARTI000006516878>:

3. Article L 225-100/102(-1) of Code of Commerce

Effective since: 2002; with amendment in 2008, transposing Directive 2006/46/EC.

Target companies/sector: Companies listed at stock exchange, around 650 companies.

Aim: To make social and environmental information public.

Consequences when not complying: Before 2005 companies were not sanctioned when not complying with the Article. In 2005, the Article was extended with a provision for stakeholders to receive the information necessary through the court. This option would be an incentive for companies to report extensively (ten Kate 2009: 5).

Source:

<http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000000775209&dateTexte=>

B. Instruments with voluntary implications for sustainability reporting

4. ADEME Carbon footprint methodology

Effective since: 2002.

Type of instrument: Methodology that enables a Greenhouse Gas (GHG) Emissions Assessment to be undertaken, compliant with the ISO 14064 standard, the GHG Protocol and the directive n°2003/07/CE related to the European Union Emission Trading Scheme.

Issued by: Environment and Energy Conservation Agency (ADEME).

Target companies/sector: Any organisation.

Aim: To obtain, with the help of easily accessible data, an assessment of direct and indirect GHG emissions resulting from an activity.

Source: <http://www2.ademe.fr/servlet/KBaseShow?sort=-1&cid=15729&m=3&catid=15730>

5. Social Impact Assessment

Effective since: 2002.

Type of instrument: Tool for internal and external information exchange. By means of completing a questionnaire, companies can report on their social profile and performance.

Issued by: Centre of Young Leaders and Agents of Social Economy.

Source: http://www.cjdes.org/1093-BILAN_SOCIETAL

6. Report on social and environmental issues

Type of instrument: Social and environmental impact assessment and reporting requirement for financing.

Issued by: Agence Française de Développement (AFD); under the supervision of the Foreign Affairs Ministry.

Target companies/sector: All organisations requesting for finance (governments, enterprises, local authorities, banks and development funds).

Aim: Through the report, harmonization of social and environmental criteria with other donors can be reached.

Source: <http://www.afd.fr/jahia/Jahia/lang/en/home>

2 United Kingdom

A. Instruments with mandatory implications for sustainability reporting

1. Reporting Statement: Operating and Financial Review (OFR)

Effective since: 2006.

Issued by: UK Treasury.

Target companies/sector: Government entities.

Requirements: The Operating and Financial Review (OFR) requires directors to consider factors such as environment and community issues insofar as these are relevant for understanding not only the past but also future performance of the business. To the extent necessary the OFR should include information about “environmental matters, the entity’s employees, social and community issues, persons with whom the entity has contractual or other arrangements that are essential to the business of the entity, receipts from and returns to members of the entity in respect of shares held by them, and all other matters the directors consider to be relevant”. This includes the policies of the entities in each area and the extent to which those policies have been successfully implemented.

Source: http://www.opsi.gov.uk/acts/acts2006/ukpga_20060046_en_26#pt15-ch5-pb1-11g417

2. Business Review

Effective since: 2006. The Business Review (BR) came into force with effect from reporting years on or after 1 October 2007.

Implemented in: The British Companies Act.

Issued by: Department for Business, Innovation & Skills (BIS).

Type of instrument: Law (and implementation of the EU Modernization Directive).

Target companies/sector: The law applies to all British companies: large and medium-sized private and public companies, with some exemptions for medium-sized entities and additional requirements for quoted companies.

Requirements: To provide a fair review of the company’s business and a description of the principal risks and uncertainties facing the business (“Business Review”). Two important factors here are (1) “Directors Duties”: the purpose of the BR is to inform members of the company and help them assess how the directors have performed their duty to promote the success of the company and (2) Transparency: to the extent

necessary for an understanding of the development, performance or position of the company's business, quoted⁷⁶ companies must disclose in their BRs information on environmental matters (including the impact of the business on the environment), the company's employees and social and community matters; and information about persons with whom the company has contractual or other arrangements essential to the business. If the Review does not contain information on these issues, it should provide an explanation of the information it does not include.

Requirements on assurance: The BR forms part of the "directors' report" (the annual report). The whole of the directors' report must be reviewed by the auditor who must state in his audit report whether the information in the directors report is consistent with the information contained in the annual accounts.

Source: <http://webarchive.nationalarchives.gov.uk/+/berr.gov.uk/policies/business-law/accounting-auditing-reporting/business-review>

3. The UK Corporate Governance Code (Formerly the Combined Code)

Effective since: 2003, review in July 2009 (no changes). In May 2010 the Financial Reporting Council (FRC) issued a new edition of the Code which will apply to financial years beginning on or after 29 June 2010. However, when the Code was published in May 2010 it included in Schedule C some engagement principles for institutional investors. This Schedule has now been superseded by the UK Stewardship Code (see section 4) and has therefore been deleted from the Governance Code with effect from 1 August 2010 (see evaluation).

Issued by: The Financial Reporting Council.

Aim: This code sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

Target companies/sector: All companies with a "Premium Listing" of equity shares in the UK

Requirements: Under the Listing Rules, companies are required to report in their annual report and accounts how they have applied the Combined Code regarding governance and internal control. Listed companies are required to report on how they have applied the main principles of the Code, and either to confirm that they have complied with the Code's provisions or – where they have not – to provide an explanation.

Source: <http://www.frc.org.uk/corporate/ukcgcode.cfm>

⁷⁶ A quoted company is defined in section 385 of the Companies Act 2006 as a company whose equity share capital is listed in the UK or in an EEA State, or admitted to trading on the New York Stock Exchange or NASDAQ.

4. The UK Stewardship Code

Effective since: July 2010.

Issued by: The Financial Reporting Council (FRC) sees the UK Stewardship Code as complementary to the UK Corporate Governance Code for listed companies and, like that Code, it should be applied on a “comply-or-explain” basis.

Aim: The UK Stewardship Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities by setting out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire. From October 2010, the FRC will list on its website all investors that have published such a statement. The FRC will provide a link to the statements, but will not comment on their contents, and inclusion on the website should not be interpreted as an endorsement by the FRC of the accuracy of the statements or the policies pursued by individual institutions. The FRC encourages all institutional investors to publish by the end of September 2010 a statement on their website of the extent to which they have complied with the Code, and to notify the FRC when they have done so and whenever the statement is updated.

Target companies/sector: In the first instance the Code is addressed to firms that manage assets on behalf of institutional shareholders such as pension funds, insurance companies, investment trusts and other collective investment vehicles. The responsibility for monitoring company performance does not rest with fund managers alone. Pension fund trustees and other owners can do so either directly or indirectly through the mandates given to fund managers. Their actions can have a significant impact on the quality and quantity of engagement with UK companies. The FRC therefore encourages all institutional investors to report if and how they have complied with the Code.

Requirements: The FRC expects firms targeted with the instrument to disclose on their websites how they have applied the Code. Principle 1 of the Code states that institutional investors that make use of proxy voting and other advisory services should disclose how they are used. The FRC encourages those service providers in turn to disclose how those services carry out the wishes of their clients by applying the principles of the Code that are relevant to their activities.

Source: <http://www.frc.org.uk/corporate/investorgovernance.cfm>

5. CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment)

Effective since: April 2010.

Type of instrument: Mandatory scheme with financial incentive, related to the UK Climate Change Act 2008

Issued by: The Environment Agency.

Aim: The CRE Energy Efficiency Scheme has been designed to raise awareness about climate change/CO₂ emissions in large organisations, especially at senior level, and to encourage changes in behaviour and infrastructure. The scheme is designed to tackle CO₂ emissions not already covered by Climate Change Agreements (CCAs) and the EU Emissions Trading Scheme.

Target companies/sector: Organisations that use more than 6,000 megawatt hours per annum (approximately equal to an annual electricity bill of £1,000,000). Organisations are eligible for the CRC Energy Efficiency Scheme (CRC) if they (and their subsidiaries) have at least one half-hourly electricity meter (HHM) settled on the half-hourly market. Organisations that consumed more than 6,000 MWh per year of half-hourly-metered electricity during 2008 qualify for full participation.

Requirements: To measure and report on all emissions related to energy use and purchase allowances. By the end of July 2011, CRC organisations will have to submit a Footprint Report of their total energy usage and emissions during the Footprint Year (April 2010–March 2011). All organisations will have to monitor and report their emissions from all fixed-point sources (not just electricity) on an annual basis, and a director of the respective organisation will have to sign a ‘statement of records’ confirming that adequate records have been kept.

Source: http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/crc/crc.aspx

B. Instruments with voluntary implications for sustainability reporting

1. Reporting Statement: Operating and Financial Review (OFR)

Effective since: July 1993; revised and updated in January 2003; final OFR regulations passed into law in March 2005.

Implemented in: The British Companies Act 2006,

Issued by: The Accounting Standards Board (ASB), which is not a governmental body.

Type of instrument: Law with recommendations.

Aim: The Reporting Statement is designed as a formulation and development of best practice; it is intended to have persuasive rather than mandatory force.

Target companies/sector: Quoted companies, but applicable to any other entity with the intention of preparing an OFR.

Requirements: The Operating and Financial Review (OFR) requires directors to consider factors such as environment and community issues insofar as these are relevant for understanding not only the past but also future performance of the business. To the extent necessary the OFR should include information about: environmental matters; the entity’s employees; social and community issues; persons with whom the entity has contractual or other arrangements that are essential to the business of the entity; receipts from and returns to members of the entity in respect of

shares held by them; and all other matters the directors consider to be relevant. This includes the policies of the entities in each area and the extent to which those policies have been successfully implemented.

Source: http://www.opsi.gov.uk/acts/acts2006/ukpga_20060046_en_26#pt15-ch5-pb1-11g417

2. Environmental Reporting Guidelines – Key Performance Indicators

Effective since: 2006.

Issued by: The Department for Environmental, Food & Rural Affairs (DEFRA).

Type of instrument: Guidelines.

Aim: The Environmental Reporting Guidelines were designed to assist companies with new narrative reporting requirements relating to environmental matters. It helps companies address their most significant environmental impacts, identify environmental risks relating to company performance, and report on these in a way that meets the needs of shareholders and other stakeholders, as contained within the ‘Contents of Directors Report’ of the Company Act. The Guidelines outline how environmental impacts can be measured through integrating Key Performance Indicators (KPIs) (such as greenhouse gas emissions), and enable companies to make use of standard business data already collected, for example, through an existing environmental management system, as well as providing guidance on how data should be reported.

Target companies/sector: Those companies that should complete a BR.

Source: <http://www.defra.gov.uk/environment/business/reporting/pdf/envkpi-guidelines.pdf>

3. Guidance on how to measure and report your greenhouse gas emissions

Effective since: 2009.

Issued by: The Department for Environmental, Food & Rural Affairs (DEFRA) and the Department of Energy and Climate Change (DECC).

Type of instrument: Guidelines, based on the World Resources Institute’s GHG Protocol Corporate Standard. Guidance is currently voluntary, but under the Climate Change Act 2008, the Secretary of State has to introduce mandatory corporate reporting on GHG emissions by April 2012 or explain to the UK Parliament why regulations have not been introduced.

Aim: The guidance aims to support UK organisations in reducing their contribution to climate change by measuring and reporting their GHG emissions.

Target companies/sector: All companies, but particularly those that should complete a BR.

Source: <http://www.defra.gov.uk/environment/business/reporting/pdf/ghg-guidance.pdf>

3 Denmark

A. Instruments with mandatory implications for sustainability reporting

1. The Green Accounts Act

Effective since: 1995.

Type of instrument: Amendment to the Danish Environmental Protection Act/statutory requirement by the Danish Ministry of Environment.

Issued by: Danish Ministry of Environment.

Aim: To enhance the public access to information about the environmental performance of polluting companies, to motivate reporting companies to focus on environmental aspects, to improve resource efficiency and to systematically improve environmental performance.

Target companies/sectors: 700 companies in nine specific sectors – including iron and steel, processing, oil and gas, chemicals, animal processing and power generation

Requirements: It is required to submit environmental information to local and national authorities. The report should be submitted electronically through a national website, and the format presenting the environmental performance is partly flexible (environmental statement is without format requirements: the environmental data have fixed formats). The environmental statement has to contain the following information: general information on the company, a director's report (providing information for non-experts) about environmental policy, environmental impacts, environmental targets, efforts, results and progress within best available techniques). Companies without a certified environmental management system must include resource consumption report. All companies have to include a statement about the releases of emissions to air and water and/or transfers of waste. Local authorities have to provide quality assurance of the environmental data, and a statement needs to be included as an integral part of Green Accounts that information provided by the companies is consistent with information held by local authorities. The annual statement, together with the EMAS report and environmental data (emissions to air and water and transfer of wastes), can substitute the Green Accounts. Green Accounts have to be presented at site level. External verification is not mandatory, in order to avoid further financial burden for companies.

Criticism: One of the major objectives of the establishment of Green Accounts had been the possibility to make environmental information available to the general public. However, an evaluation conducted in 1999 by the Ministry of the Environment showed that generally external stakeholders showed relatively little interest in acquiring and using the Green Accounts and distrusted the information provided by the companies.

Future developments: New regulation approved March 2010 reducing the number of mandatory Green Accounts from 1,000 to 700; reduction of the information to be

published and more flexible reporting for companies with certified ISO 14001 or EMAS; alignment of the information with EU requirements (PRTR); and introducing electronic submission of Green Accounts.

Source: http://www.byelverton.net/sustainable_business/GreenAccounts.pdf

2. Danish Financial Statement Act

Effective since: 2002 and Section 99a since 2009.

Type of instrument: Financial Statement Act (section 99).

Issued by: Danish Commerce and Companies Agency in the Ministry of Economic and Business Affairs.

Aim: To encourage more Danish companies to report on their CSR efforts, to get systematic information on CSR activities and to make the Danish corporate sector internationally renowned for responsible growth.

Target companies/sector: Large companies with assets of more than 19 million Euro, revenues of more than 38 million Euro and more than 250 employees, all listed companies and state-owned companies. Although institutional investors, investment associations and listed financial companies are not covered by the Financial Statement Act, they will have to comply with the same rules laid down in executive orders issued by the Danish Financial Supervisory Authority (Danish FSA).

Requirements: Non-financial aspects that are material to the company's activities, including environmental and human resource aspects, have to be provided. The new CSR requirements for big and state-owned companies are mandatory for annual reports from 2009 onwards. Companies have to provide information on their policy for CSR or SRI, on how the policies are implemented and on the results that have been obtained, as well as on management expectations for the future. The explanatory notes and guidance documents refer to and encourage the use of the UN Global Compact and the related Communication on Progress and UN principles for Responsible Investment. GRI and the OECD guidelines are also mentioned as tools for reporting on CSR. CSR and SRI are still voluntary; however, businesses without policies on social responsibility are obliged to provide information in this respect. There is no specific format on how information needs to be provided (in the annual report, as an addendum, on the website etc.), but in the annual financial statement it needs to be clear where the stated information can be found.

Requirements on assurance: While it is not mandatory to audit supplementary documents such as the sustainability reports, the non-financial information in the annual report is subject to consistency check against the financial data provided.

Criticism: As for section 99a, while generally seen as one of the most advanced and interesting works of legislation on CSR reporting, there are voices that object to the fact that CSR reporting stays voluntary and companies do not necessarily have to publish CSR information. Amnesty International for example criticizes the fact that companies

can report that they decide not to work on CSR, as well as the fact that there are no requirements to report on thorough due diligence or on improvement potential related to CSR activities.⁷⁷ Additionally, the estimated effort has been criticized; the Danish government estimates that an average of 3 hours per company suffices to fulfill the legislation, which would mean a rather superficial disclosure of CSR activities. The law in itself is not being criticized, only the way it has been welcomed as a ground-breaking change and as a model for other countries (Mallenbaker 2010), as well as the fact that it does not go far enough.⁷⁸

Source: <http://www.eogs.dk/sw21252.asp>

B. Governmental instruments with voluntary implications for sustainability reporting

1. Social Index

Type of instrument: Self-assessment management tool to measure the degree to which a company has integrated employment and social inclusion policies.

Issued by: Danish Ministry of Employment, now with a secretariat at PwC.

Aim: To prepare action plans through constructive dialogue between employees and management for social areas they wish to prioritize.

Target companies/sector: All.

Requirements: Filling out an employee questionnaire to determine the company score on a social index. The score needs to be verified by an external expert. In case the company scores more than 60, it can use the Social Index Label on its products.

Source: <http://www.detsocialeindeks.dk>

2. CSR Compass

Type of instrument: Reporting guidance on supply-chain management.

Issued by: Danish Ministry of Economic and Business Affairs in cooperation with the Confederation of Danish Industries and the Danish Institute for Human Rights.

Aim: Support of Danish companies active in developing and emerging markets to declare compliance with international standards and to manage demands towards their supply chain.

⁷⁷ Email of 5 July 2010 from Amnesty International- Danish Section/ Sanne Borges.

⁷⁸ Email of 5 July 2010 from Amnesty International- Danish Section/ Sanne Borges.

Target companies/sector: Companies active in growth markets or developing countries.

Requirements: Declaration about a specific demand. As the declaration will encompass accurate references to Danish law, it can be used to document that the company complies with its customers' demands.

Source: <http://www.csrkompasset.dk/> and <http://www.csrgov.dk/sw60040.asp>

3. Climate Compass

Type of instrument: Web-based tool for calculating carbon emission and a step-by-step guide for building a strategy for reducing emission/energy consumption.

Issued by: The Danish Ministry of Economic and Business Affairs (the Danish Commerce and Companies Agency) in partnership with the Confederation of Danish Industry (DI).

Aim: The motivation/aim is to reduce risks related to climate change and increase the competitiveness of Danish companies.

Scope: Calculation of the company's carbon footprint by using the Carbon Calculator, preparation of a climate strategy and step-by-step guidance for building a strategy for reduction of emissions and energy consumption.

Target companies/sector: All companies and sectors.

Source: <http://www.climatecompass.dk/>

4. Communication Compass

Type of instrument: Web-based tool assisting companies in communicating and reporting on CSR.

Issued by: The tool has been developed by the Copenhagen Business School with support from the Danish Commerce and Companies Agency, under the Ministry of Economic and Business Affairs and the Krak Foundation.

Aim: Support of Danish companies to communicate and report on their CSR.

Target companies/sector: All.

Requirements: The web tool is a three-step communication model that provides the company with a CSR communication strategy. The tool also includes a large collection of cases where the companies can seek inspiration on CSR communication and reporting.

Source: <http://www.kommunikationskompasset.dk/>

5. GoCSR

Type of instrument: Web-based tool enabling company management to involve employees and other stakeholders in the development of a business-driven CSR strategy.

Issued by: The tool has been developed by the industry organisation Dansk Fashion and Textile and the Danish Commerce and Companies Agency under the Ministry of Economic and Business Affairs.

Aim: To facilitate Danish companies to work strategically with CSR in order to increase their competitiveness.

Target companies/sector: SMEs wishing to initiate a CSR strategy.

Requirements: A computer and internet.

Criticism: It is not possible to save the reports from the tool.

Source: www.GoCSR.dk (only available in Danish).

6. Global Compact Self Assessment tool

Type of instrument: The tool translates the basic expectations raised by the Global Compact principles into a number of practical self-assessment questions and performance indicators for companies.

Issued by: The tool has been developed by the UN Global Compact with support from the Danish Ministry of Economic and Business Affairs, the Confederation of Danish Industry, the Danish Institute for Human Rights and the Industrialisation Fund for Developing Countries (IFU).

Aim: The tool enables companies to diagnose their performance across all four issue areas, human rights, environment, labour and anti-corruption; inspires continuous improvement; and assists in the development of a Communication on Progress.

Target companies/sector: Global Compact members.

Source: http://www.unglobalcompact.org/AboutTheGC/tools_resources/general.html

4 South Africa

A. Instruments with mandatory implications for sustainability reporting

1. Employment Equity Act

Effective since: 1998.

Type of instrument: Legislation.

Aim: To eliminate unfair discrimination in the workplace and implement affirmative action for “designated groups”: black people, women, or people with disabilities.

Requirements: Annual reporting on progress.

Source: www.info.gov.za/view/DownloadFileAction?id=70714

2. The Public Finance Management Act (PFMA)

Effective since: 1999.

Type of instrument: Legislation that controls the behaviour of public entities and that has some compulsory reporting requirements, although only to government. The PFMA is related to the MFMA (Municipal Finance Management Act).

Aim: To introduce the same treasury norms and standards for the whole public sector in South Africa, through which all areas of government will operate within the same financial framework. Moreover, the PFMA sets the scene for government to get good value for money. It is about good management and performing well.

Target companies/sector: National and provincial public entities.

Source: www.info.gov.za/view/DownloadFileAction?id=70714

3. The Municipal Finance Management Act (MFMA)

Effective since: 2003.

Aim: To introduce the same treasury norms and standards for the whole public sector in South Africa, through which all areas of government will operate within the same financial framework.

Target companies/sector: Local government/public entities.

Source: www.treasury.gov.za/legislation/pfma/Default.aspx

4. A National Black Economic Empowerment Act

Effective since: 2003.

Issued by: Department of Trade and Industry.

Type of instrument: Legislation with industry-specific charters, see 4.B. It sets out a national framework for the promotion of Black Economic Empowerment (BEE).

Target companies/sector: Any company.

Requirements: Progress reports to be submitted to government.

4. B Industry-Specific Black Economic Empowerment Charters

Effective since: 2003.

Type of instrument: Charters supporting the National BEE Act.

Target companies/sector: Several key sectors, including mining, the petroleum and maritime sectors, tourism and financial services.

Source: <http://www.thedti.gov.za/>

5. The Companies Act

Effective since: 2008.

Aim: The Companies Act provides for holding directors personally liable for poor performance and poor public disclosure of information.

Source: www.info.gov.za/view/DynamicAction?pageid=544.za

6. Mineral Resources and Petroleum Bill

Effective since: 2009.

Target companies/sector: Companies in the mineral resources and petroleum sector.

Aim: Disclosure of social impacts of operations during and post operation.

Requirements: Companies are required to disclose Social and Labour Plans to government.

Source: KPMG, UNEP, GRI and UCGA, *Carrots and Sticks – Promoting Transparency and Sustainability*, p.62

B. Instruments with voluntary implications for sustainability reporting

1. The King Report on Corporate Governance (King I/III)

Effective since: 1994/2009.

Type of instrument: Code on good corporate governance (not yet enshrined in law). It is the definitive document for South African corporate governance. Companies use it according to the “Apply-or-explain” principle. It is also a listing requirement for the Johannesburg Stock Exchange.

Aim: The King Report reflects changes focused on requiring business to integrate the management of financial and non-financial issues (risk management and audit). Furthermore, the aim is responsible corporate citizenship, which includes, among many other things, issues related to transformation, human rights, human capital, social capital, safety and health.

Target companies/sector: All domestic and foreign companies active in South Africa.

Requirements: King III requires that organisations produce an integrated report, or explain why they do not. It has been prescribed that entities follow an integrated reporting format, which means describing financial, social and environmental factors in a single report. A company’s “material matters”, including sustainability risks, should be disclosed in a timely manner. Furthermore, third-party assurance is required.

Source: www.iodsa.co.za

2. State-Owned Enterprise Shareholder Compacts

Effective since: 2002.

Type of instrument: Shareholder Compacts between state-owned enterprises and the government shareholder.

Aim: The role of the shareholder, being the government of South Africa, is to ensure that state-owned enterprises are efficient, well run and in a position to deliver on government’s mandate.

Target companies/sector: State-owned enterprises.

Requirements: Some of these Compacts require reporting on sustainability issues.

Source: KPMG, UNEP, GRI and UCGA, *Carrots and Sticks – Promoting Transparency and Sustainability*, p.63

3. Reporting requirements under the Johannesburg Stock Exchange (JSE) Socially Responsible Investment Index (SRI Index)

Effective since: 2004; update June 2010.

Issued by: The Integrated Reporting Committee (IRC) with founding organisations: The Association for Savings and Investment SA (ASISA); Business Unity South Africa (BUSA); Institute of Directors SA (IoDSA); JSE Ltd; and the South African Institute of Chartered Accountants (SAICA).

Type of instrument: Reporting requirement for the King Report on Corporate Governance. The listing requirements impose requirements on the company beyond those required under the Companies Act.

Aim: Integrated reporting. The listing requirements encourage companies that choose to participate to report publicly on sustainability-related issues. An integrated report should give users an all-round view of the company by including information on social, environmental and economic performance along with the company's financial performance.

Target companies/sector: All 450 companies in the FTSE/JSE All Share Index.

Requirements: To produce an integrated report in place of their annual financial report and sustainability report, according to King III.

Source: <http://www.jse.co.za/Home.aspx>

5 United States of America

A. Instruments with mandatory implications for sustainability reporting

1. Regulations issued by the Securities & Exchange Commission (SEC)

Effective since: Republished in 2008.

Type of instrument: Regulations, instructions, interpretative and explanatory releases. The SEC has been authorized by Congress to issue regulations.

Issued by: Securities and Exchange Commission (SEC).

Target companies/sector: Publicly listed companies and foreign companies.

Requirements: It is required to disclose any material information related to environmental risks or legal proceedings on environmental matters. Smaller companies have to report on environmental matters, but have to fulfil less reporting requirements.

Foreign companies have to “describe any environmental issues that may affect the company’s utilization of the assets” (Form F-20). Guidance documents on how to apply existing disclosure requirements to Climate Change were issued in January 2010.

There are extensive specific disclosure requirements on the above-mentioned topics (as described in Regulation S-K). However, there are also general obligations to disclose all material information, to make sure that no misleading statements are made that could have an influence on buyers’ decisions. Generally, it can be stated that all information that has “a substantial likelihood that a reasonable person would consider it important” [17CFR, §211, 12 August 1999], needs to be disclosed.

Disclosure requirements consist of a basic information package for all investors, as well as in- depth information for certain investor groups and securities analysts.

The following parts of the regulation are the most important ones related to ESG disclosure:

- Item 101: Disclosure of any material related to compliance with environmental regulation that impacts capital expenditure, earnings and competitive position, and which might have material impacts.
- Item 103: Disclosure of pending material legal proceedings.
- Item 303: Requirements for the Management Discussion and Analysis. Requires disclosure and discussion of trends, commitments, events or uncertainties that will have a material effect on the firm’s financial condition. Shifts the burden of proof to management, which, in case of known uncertainties, has to determine that a material effect is not reasonably likely to occur.

Criticism: Debate on the definition of the issue of materiality: Companies use the concept to limit ESG disclosure.

Debate on the delegation of regulatory power to the stock exchange control: Generally there is little evidence that the SEC is really taking over a broader role and responsibility for ESG disclosure. Environmental enforcement by the SEC has been rare and requirements are oriented towards guaranteeing smooth capital markets and protecting investors rather than environmental and social responsibility.

Source: <http://www.sec.gov/divisions/corpfin/ecfrlinks.shtml>;
<http://www.ceres.org/Page.aspx?pid=1193>

2. Sarbanes-Oxley Act

Effective since: 2002.

Type of instrument: Law. Formally, the Sarbanes-Oxley Act is called the Public Company Reform and Investor Protection Act, 15 USC 7245 7256, and integrated into SEC regulations.

Issued by: **Securities and Exchange Commission (SEC).**

Aim: To improve corporate governance of companies.

Target companies/sector: Listed companies, including foreign companies listed at the NY Stock Exchange.

Requirements: The most important sections under the Sarbanes-Oxley Act are:

- Section 401: Disclosure of Material Correction Adjustments and Disclosure of Off- Balance-Sheet Transactions.
- Section 404: Disclosure of Management Assessment of Internal Controls.
- Sections 302 and 906: Requirements for officer certification.

Criticism: Its Section 404 requirements for top executives to sign off on detailed internal controls have been accused of imposing a too heavy regulatory burden on companies, for example by not explaining the scope of internal and external checks required. It is discussed that the US is losing competitive advantage due to the complex regulations related to corporate governance. American companies deregistering from public stock exchanges nearly tripled during the year after the Sarbanes-Oxley Act became law, while the New York Stock Exchange only saw 10 new foreign listings (Leuz, 2004). Especially for smaller companies, costs to comply with Section 404 are huge, since a significant fixed cost is involved to do the assessment (SEC 2006).

Source: <http://news.findlaw.com/hdocs/docs/gwbush/sarbanesoxley072302.pdf>

3. Toxic Release Inventory

Effective since: 1988.

Type of instrument: Regulation.

Issued by: Environmental Protection Agency.

Aim: To provide communities with information about toxic chemical releases and waste management activities, and to support informed decision-making at all levels by industry, government, non-governmental organisations, and the public.

Target companies/sector: All companies with more than 10 full-time employees.

Requirements: Submission of data on emissions of specified toxic chemicals to the Environmental Protection Agency.

Website: <http://www.epa.gov/TRI/>

4. Mandatory Greenhouse Gas Reporting Rule

Date of enacting: Yet to be enacted; final rule published in October 2009; technical amendments and clarifications signed in May 2010.

Type of instrument: Regulation.

Issued by: Environmental Protection Agency.

Aim: To provide a better understanding of where GHGs are coming from and guidance on the development of sound policies and programs to reduce emissions and fight climate change.

Target companies/sector: Suppliers of fossil fuel and industrial chemicals, manufacturers of motor vehicles and engines, as well as large direct emitters of greenhouse gases with emissions equal to or greater than a threshold of 25,000 metric tons per year.

Criticism: There are numerous US States that are currently suing EPA to stop it from issuing rules controlling greenhouse gas emissions until it re-examines whether the pollution harms human health.

Websites: <http://www.epa.gov/climatechange/emissions/ghgrulemaking.html>;

<http://www.reuters.com/article/idUSN1916237120100319>



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