

Preface

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Corporate Social Responsibility (CSR) should not be about the public relations of companies, about glossy reports and extra-curricular activities. It should be about fundamental analysis of the impact a company has on the environment and the society in which it operates, and bringing about change in the core activities of that company in the interests of equality, justice and sustainable development. Many companies have one or two good schemes that they can promote and sell as their niche in the CSR market, but what is important is that the responsibility of the company runs central to all their activities, and particularly to their core business.

In October 2002 the European Commission launched the European Multi-Stakeholder Forum on Corporate Social Responsibility, a group of forty-four people representing four 'families' of stakeholders: employers organisations, business groups, trade unions and non-governmental organisations (NGOs), plus several observers and members of the European Commission. This Forum, through its four working groups focusing on various issues, was tasked with producing a report for June 2004 to make recommendations to the European Commission on future actions in the framework of CSR.

One of these working groups was the Round Table on Tools, Transparency and Convergence; the issue of social and environmental reporting was included in its remit.

The Round Table provided a possibility to discuss the fundamental issues of social and environmental responsibility with the companies themselves; a chance to look at current EU policy and legislation and to see where real improvements can be made; a chance to speak openly and frankly around the table on points that NGOs have campaigned about for many years. However in a meeting of over sixty people, it is not easy to get into the detail of the debate, the real substance. Which is why **SOLIDAR** decided to undertake the project that is described in this publication.

preface

**Developing the Dialogue:
Towards a Positive Framework for Corporate Social Reporting**

The Round Table on Tools, Transparency and Convergence met in September 2003 and spent a considerable amount of time discussing social reports. However the debate was inconclusive, sides of the table were still sticking to initial positions and not looking at ways in which convergence could be reached. **SOLIDAR** felt that, in the right meeting, with people looking openly at the issue, far more agreement could be found.

We therefore brought together a group of stakeholders to engage in a short project with the particular focus of reporting.

Over the three project meetings which took place in October 2003, February and April 2004, a small group of companies, NGOs and trade unions, with the assistance of an expert consultant and representatives of The Centre, discussed the issues of reporting in more detail, listened closely to each other's personal experience of reporting and discussed where the future may lie in this issue. The first result was a common statement presented to the following Round Table meeting in March 2004 and the second result is this report, which outlines the discussions and insights we have shared.

We hope that this report is of interest to a wider audience than those who followed or participated in the European Multi-Stakeholder Forum on CSR and that it offers some input on working together to achieve solid results.

Our thanks to all those who took part in the project: Anthony Sampson and Nathalie De Geus from Aviva, Paul Rowsome and Solene Flahaut from Carrefour, Juana Bengoa and Jose Maria Iztueta from Solidaridad Internacional, Tim Peat from War on Want, Graham Bennett and Leigh McAlea from One World Action, Dwight Justice from the ICFTU and Stirling Smith for bringing us all together. A special thanks also to The Centre, in particular to Martin Porter, Alin Stanescu and Siân Hughes for their excellent input and hospitality.

Giampiero Alhadef
Secretary General of SOLIDAR

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Summary

Executive Summary

In October 2002 the European Commission launched the European Multi-Stakeholder Forum on Corporate Social Responsibility (hereafter CSR EMS Forum), consisting of four groups of stakeholders: employers associations, business groups, trade unions and NGOs. The Forum, through four working groups focussing on various issues, was tasked with producing a report to the Commission on future actions in the framework of CSR.

To complement and feed into one of the working groups (the Round Table on Tools, Transparency and Convergence), SOLIDAR brought together a number of companies - leaders in CSR - NGOs and trade unions, to look in detail at the issues of CSR reporting.

The group reviewed debates on CSR reporting, examined the experience of the participating companies and, most of all, held an open and frank discussion about the issue.

One of the early conclusions of the group was that reporting tells a story; it is the story itself that is of prime importance, reporting is simply the means of getting this across to stakeholders in an accessible way. Therefore getting too focussed on the layout and content of the report may be a mistake.

Secondly, all involved agreed that the most appropriate CSR frameworks were the standards adopted by intergovernmental organisations such as the United Nations, ILO, OECD, the European Union and Council of Europe. Some of these are actually referred to in the terms of reference of the CSR EMS Forum. These should not be 'diluted' or re-interpreted.

Thirdly, it was accepted that it was difficult to find a single existing reporting framework, which would be suitable for all companies, given the variety of sectors, national traditions, company structure, and of course size.

Fourthly, it was agreed that the data in reports need not be exhaustive. Key Performance Indicators (KPIs) for CSR performance need to be:

- Carefully chosen - if they are 'key', there will not be hundreds of them;
- They must be about 'performance'; and
- They must indicate something that is useful to know and which is relevant to the business.

Fifthly, the group welcomed the growing trend to third party assurance or verification of reports, while recognising the lack of an acceptable global regulatory body for those who carry out such assurance. A global multi stakeholder body, which could establish standards for third party verifiers would be desirable.

Finally, the group did not consider that the costs of producing a CSR report should deter any company that was serious in being an ethical, responsible business.

The group concluded that a requirement on companies - of a certain size - to report on their CSR policies and practices would be acceptable, if flexibility in regard to content and format were preserved, to allow for experimentation and the diversity of businesses. The group agreed a statement that was presented to the Round Table on Tools, Transparency and Convergence. The text follows. This statement is a result of a dialogue and does not necessarily represent the individual positions of the project participants. SOLIDAR takes full responsibility for the report and statement.

SOLIDAR Statement to the European Multi-Stakeholder Forum's Round Table on Tools, Transparency and Convergence 22nd March 2004

A dialogue has taken place¹ in the context of a SOLIDAR initiative and project: *Developing the Dialogue: Towards a Positive Framework for Corporate Social Reporting*, supported by DG Employment and Social Affairs of the European Commission which concluded that:

- CSR (social and environmental) reporting plays a fundamental role in reaching the objectives of the Lisbon and Gothenburg processes. European companies, trade unions and civil society should therefore take a lead in achieving a consensus on development of future practice.
- A mixture of mandatory and voluntary tools can provide reporting which stakeholders can trust, without stifling the many initiatives that currently exist.
- The EU must make it mandatory for companies to declare their CSR policy/principles and report annually on how they integrate them across the company. Special guidance and attention should be provided for SMEs.
- There is still a considerable amount of experimentation and learning on what is the best way to report. It is not appropriate at this stage to be prescriptive on the format that reports should follow. Companies vary in size, structure, and sector. This means that different reporting frameworks are suitable for different companies.

To assist companies in reporting, and other stakeholders in using their reports, the Commission should establish a 'clearing house' to:

- Promote existing international standards²
- Track international best practice
- Promote exchange of experience and best practice
- Offer help and advice (to organisations of all sizes, especially SMEs)

Building on the experience of the MSF, the Commission must now ensure that an ongoing multi stakeholder review at EU level takes place to establish a coherent process and monitor progress. Over time, and using the learning that could be developed by a clearinghouse, more detailed guidance on reporting could be developed.

CSR reporting is not a substitute for national and international legislation and regulation; nor is it a substitute for social dialogue and social partnership. This already exists within the European Social model.

1 The participants in the project were Aviva, Carrefour, International Confederation of Free Trade Unions, Solidar, Solidaridad Internacional, One World Action and War on Want. This statement is a result of a dialogue and does not necessarily represent the individual positions of the project participants

2 The internationally agreed instruments referred to in the mandate of the MSF were the OECD Guidelines for Multinational Enterprises, Council of Europe Social Charter, ILO core labour conventions and the International Bill of Human Rights. Business Respect newsletter No. 59, 13 Jul 2003

Background

The group who has approved this statement has met twice in Brussels, seeing its work as parallel to and complementary with the Multi-Stakeholder Forum process. We believe that doing nothing about CSR is no longer an option for the European Union. By June 2004, the Commission is expecting "A framework of reference from the [Multi-stakeholder] Forum, including orientations and recommendations on common guiding principles to promote credibility and transparency of CSR."³

General findings

Reporting is a process, not just a document, nor an event. Reporting tells a story about where a company has come from and where it is now. It is a snapshot, a point in time.

There are many ways to tell this story, and it will differ with size and sector of a company. There are several fundamental ingredients to make it a good story, and those ingredients are provided for by international standards.

3 Commissioner Diamantopoulou 13/11/03

The most appropriate standards to use are those adopted by governments and inter-governmental organisations such as the United Nations, the ILO and the OECD. These standards, which have been produced through multi-stakeholder dialogue, do not specify 'how' to report, but they do highlight the most important areas to cover in the report.

Voluntary schemes exist to help companies in how they report. Although they are useful, the multitude of schemes and the variations in criteria can be confusing to both user and observer. More experience is required in how reports can be presented and how they can be validated or assured.

Company non-financial performance cannot be objectively measured, audited and certified in the same way as financial performance. Social and environmental reporting needs a different approach and different emphasis to financial reporting and auditors need to have different skills.

The current playing field is not level. Among companies there are clear leaders in reporting, but the laggards are being left behind. Where mandatory reporting has been put in place (as in France), the leaders have not felt a strong adverse impact.

Therefore

The EU should identify, and officially recognise, those CSR frameworks which are valuable - because of the multi stakeholder nature of membership, and the fact that they are based on credible standards - such as UN, ILO, OECD.

The EU should not attempt to draw up its own 'CSR standards'. We do not need more - the Universal Declaration of Human Rights, the Rio Declaration on Environment and Development, International Labour Organization's Declaration on Fundamental Principles and Rights, the ILO Tripartite

Declaration of Principles concerning Multinational Enterprises and Social Policy and the OECD Guidelines codes are sufficient. What is needed is greater promotion, understanding and implementation of them.

The EU can assist to promote convergence of the different reporting platforms. The influence available to the EU could help remove the confusion that currently prevails.

The proposed reporting requirement

Our proposal is that a basic starting point would be the disclosure of a company's policy (or principles). A simple examination of this would quickly show if a company understood its obligations.

The annual reporting would enable the company to show how it carried out the policy or principles across its business. We appreciate that large companies may well have operations in many countries, inside and outside the EU as well as different businesses. To report on all these might not be feasible straight away. A company could report on how it was rolling out its policy/principles across its business year on year. It would be up to the company to decide what framework to use - it could develop it own, or adopt one such as the GRI. Similarly, a company could decide whether to seek external validation or assurance.

The implication is that detailed reports with large amount of statistics would not be mandatory. Reporting tells a story; it is the story that is important, not the reporting

Over time, an observatory or clearing house could play an important role in identifying the frameworks which companies - and stakeholders- found most useful, and helping in convergence of frameworks. There is a great deal of useful experimentation in reporting, and capturing the learning from this will be important before any further extension of a mandatory reporting requirement.

introduction

Introduction

It is no surprise that there is 'real confusion in the marketplace as to the purpose, value and audience for CSR reporting.'⁴

Financial reporting is relatively simple. Legislation lays down what information has to be collected, how it is verified by a third party (auditors) and the form in which it is published or at least deposited for public consultation.

The purpose of financial reports is to allow investors and potential investors to judge whether a company is using their money properly and if it will give a good return. This process can reveal dishonesty within an enterprise, although, as Enron and other scandals have shown, this is not always the case.

With social and environmental reporting, there is virtually no equivalent to the legal framework laid down for financial reporting. There are a small number of mandatory requirements in some countries, which are discussed later, but nothing comparable to the elaborate and strict procedures which operate in nearly all countries for financial reporting.

But measuring money is simpler than measuring the many complex issues which comprise CSR. The tools of financial reporting have taken a long time to develop - about 150 years. To apply these to CSR is difficult.

What is CSR?
 Although there are many definitions of CSR, for the purpose of this project, we used the one adopted in the first European Commission Green Paper "Promoting a European Framework for Corporate Social Responsibility", and which was the basis for the multi stakeholder forum process:
 CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

⁴ Mallen Baker, Looking for business solutions on CSR reporting Business Respect newsletter No. 59, 13 Jul 2003

The European Union Corporate Social Responsibility process

In July 2002, the European Commission announced its intention to establish a European Multi Stakeholder Forum on Corporate Social Responsibility (hereafter CSR EMS Forum) with the aim of promoting CSR through raising the level of understanding of CSR, and fostering a dialogue between the business community, trade unions, civil society organisations and other stakeholders.

Its mandate was:

With the overall aim to foster corporate social responsibility, the CSR EMS Forum shall promote innovation, transparency and convergence of CSR practices and instruments through:

Improving knowledge about the relationship between CSR and sustainable development (including its impact on competitiveness, social cohesion and environmental protection) by facilitating the exchange of experience and good practices and bringing together existing CSR instruments and initiatives, with a special emphasis on SME specific aspects;

Exploring the appropriateness of establishing common guiding principles for CSR practices and instruments, taking into account existing EU initiatives and legislation and internationally agreed instruments such as OECD Guidelines for multinational enterprises, Council of Europe Social Charter, ILO core labour conventions and the International Bill of Human Rights.

The European Commission facilitated and chaired the CSR EMS Forum, which had a membership of employers, employees and civil society as well as other business organisations. The CSR EMS Forum was asked to present before summer 2004 a report about its work and a set of conclusions and recommendations to the European Commission on a future framework for CSR.

A number of theme-based Round Tables took place as part of the process:

- Improving knowledge about CSR and facilitating the exchange of experience and good practice;
- Fostering CSR among SMEs;
- Diversity convergence and transparency of CSR practices and tools;
- Development aspects of CSR.

SOLIDAR participated in the CSR EMS Forum, as a member of the Platform of European Social NGOs.

Who's who in the SOLIDAR project

The project involved three constituencies: business, trade unions and NGOs.

Business

The companies who participated had already carried out a voluntary system of reporting over a number of years. Both companies have extensive operations throughout the world.

Aviva, is the UK's largest insurer, and the seventh largest in the world. It has 56,000 employees worldwide (2003) and 240 billion of assets under management. (www.aviva.com/csr).

Carrefour is a French based retail company that is present in 29 countries with 419,040 employees. (www.carrefour.com).

Trade Unions

Trade unions were represented by the Brussels-based International Confederation of Free Trade Unions (ICFTU). The ICFTU represents over 150 million workers in 233 affiliated organisations in 152 countries and territories, and is an observer member of SOLIDAR (www.icftu.org). The ICFTU is part of the Global Unions network, which also includes the Global Union federations and the Trade Union Advisory Committee (TUAC) of the OECD.

NGOs

SOLIDAR is an international alliance of social and economic justice NGOs. It is based in Brussels and has member organisations across Europe. Three of these members took part in the project:

One World Action is a UK based NGO working for a world free from poverty and oppression in which strong democracies safeguard the rights of all people. (www.oneworldaction.org)

Solidaridad Internacional is based in Spain and works to fight against poverty and to strengthen international social justice by means of the transformation of North/South relations (politics, economy and trade). (www.solidaridad.org)

War on Want is a British organisation fighting poverty in developing countries in partnership and solidarity with people affected by globalisation. They campaign for workers' rights and against the root causes of global poverty, inequality and injustice. (www.waronwant.org)

Reporting: an introduction to some debates



In this section, we ask the questions: who reports, why do they report, what do they report about?

Who reports?

There are widely differing views about the number of companies that currently produce a social or environmental report. The Global Reporting Initiative estimates that, to date, more than 3,000 corporate environmental, social or sustainability reports have been published voluntarily; while British American Tobacco (BAT) in its first Social Report, claimed that 'Fewer than 20 of the FTSE 100 companies report on social performance and fewer than half of those say they work to AA1000 Standard or Global Reporting Initiative guidelines'⁵; and the New Economics Foundation (NEF) in a critical study issued in 2000, estimated that less than one per cent of all listed companies on either the New York or London Stock Exchanges reported on social performance.

Not surprisingly, reporting seems to be mainly carried out by larger, normally multi-national, companies. According to an article in the Financial Times:

More than half of the top 250 companies now produce reports on environmental, social or ethical performance, demonstrating how non-financial disclosure has become mainstream. A new study found that 132 of the FTSE 250 companies report. All of those covered the environmental and 100 also covered social and ethical issues. This compares with 30 that produced non-financial reports five years ago and 6 ten years ago. Reports are also appearing in sectors not traditionally targeted by campaigners, such as media and telecommunications.⁶

The quality of the reports, when produced, is another issue. This often depends on where the responsibility for producing the report lies

within the company and what status that department is given. The NEF claimed that social reporting is often marketed as a way to contribute to "reputation assurance" and is the responsibility of public relations departments. Nearly half of business and finance journalists in the UK feel that social reports are "just PR gloss with little real substance". Most damningly, it claimed that: "to date, there is no concrete evidence that social reporting results in improved social and ethical performance. We expected too much"⁷

However, where reporting is indeed "telling a story" rather than putting PR gloss on activities, much of value has been learnt by companies and others interested in CSR. In these situations, a report describes the policies and values of a company and the structures it has put in place to demonstrate its commitment to those policies.

Aviva's CSR reports, for example, describes who 'owns' CSR in the business. As Aviva has businesses in many countries, its task is to roll out its CSR policies across the company, and the report describes progress in that process. Aviva has a dedicated CSR team, but have nominated managers for the policy across its activities which helps to ensure it's aim of making CSR "part of the company's DNA".

Carrefour has a Quality and Sustainability Department. The company's 2002 Sustainability Report describes how the department set itself a priority of "Improving our reporting system". To do this, it established a Sustainability Report Steering Committee that reviewed:

- Ethical rating agency questionnaires;
- The New French Economic Regulations that make it mandatory for listed companies to report on the impact of their business on society and the environment;
- The Global Reporting Initiative (GRI) guidelines;

⁵ BAT Social Report 2001/2002

⁶ 'Half top companies report on environmental conduct' (Financial Times 09/09/03)

⁷ New Economics Foundation, 8.11.2000

- The goals set out in Carrefour's first Sustainability Report; and
- The indicators used by other companies in the retail sector

Like many other companies, Aviva and Carrefour see the need to improve their reporting year on year, reflecting on feedback, both internal and external. CSR reporting is still in its infancy, and there is a great deal of experimentation and learning going on.

Why report?

There are many reasons to report on your sustainable, 'triple bottom line' performance.

Improving performance

Reporting tells a story; it is the story itself that is of prime importance, reporting is simply the means of getting this across to stakeholders in an accessible way. The report is therefore a snapshot, one point in time in the CSR process. For companies, possibly the most important reason for reporting is as a way of helping them to keep track of that story and ensuring that the process is monitored and benchmarked.

Reporting therefore, could be the basis for continuous improvements: a tool or benchmark for the organisation itself. This has been called an 'internal objective'⁸. According to the Pielle Consulting Group, 70 percent of companies, which undertake a social audit, have a system in place to use the findings to drive improvements.⁹

Attracting investors

Aviva and Carrefour stated that a good CSR profile played a crucial role in gaining approval by Social Responsible Investment (SRI) analysts and gaining entry into SRI indices.

In this rapidly growing field, there is already a (voluntary) quality standard for SRI research, drawn up by a European network of SRI research organisations. This Voluntary Quality Standard for Corporate Sustainability and

Responsibility Research (or CSSR-QS as it is often known) is comprised of guidelines and rules, commitments and proofs on the transparency, quality and on the accountability and verifiability of the processes involved in Corporate Sustainability and Responsibility Research. The project to develop the CSSR-QS was initiated, supported and funded by the European Commission.¹⁰

Carrefour mentions four evaluations of its CSR record, including some, where it did not score highly enough to merit inclusion.

- SRI Sustainability Asset Management / DJSI, a Swiss enterprise that screens companies eligible to be listed on the Dow Jones Sustainability Index. In 2002, Carrefour was listed on the DJSI World Index for the first time.

- Ethical Observatory (ODE) / FTSE4Good Index. The ODE assesses French companies for a possible listing on the FTSE4Good Index. Carrefour was not selected in 2002.

- Carrefour has qualified for inclusion in Storebrand Principle Funds, a portfolio of ethical companies by Storebrand, Scandinavia's leading ethical funds manager. Storebrand commented, "Carrefour has gone to great lengths to provide us relevant information. It took a major stride with the publication of its first Sustainability Report."

- Sarasin and Cie SA Bank publish evaluation reports on the societal and environmental performance of various corporations. It reported favourably on Carrefour.¹¹

Carrefour is also listed on ASPI Eurozone, and two ECP ethical indexes.

Aviva's website also points out its success in attracting SRI awards. It has been in the FTSE4Good Index Series for a number of years.

Aviva has been ranked for two consecutive

years as the top global insurer for CSR performance. The ranking was made by Innovest, which specialises in analysing companies' performance on environmental, social and strategic governance issues. Aviva is included in both the Dow Jones Sustainability World and STOXX Indexes. It is also included in the CSR indexes of Business in the Community and Business in the Environment, being ranked first in sector.

Sharing learning

Another reason to report might be to share learning, as part of a process to develop - and raise standards of monitoring and verification of CSR; this is perhaps best seen in the case of the UK's Ethical Trading Initiative (ETI) which includes companies, NGOs and trade unions and operates on a basis of strict tripartism. It has 35 companies in membership from the retail and food sector, ranging in turnover from £1 million to several £billion. ETI members agree to a 'Base Code' and to sharing learning about their experience of implementing that code along their supply chain. (www.ethicaltrade.org)

Other forums to share learning exist on a sectoral basis where companies are facing similar challenges and obstacles.

Inform Consumers

Another benefit of reporting is the reassurance to those outside the organisation the 'public', 'stakeholders' and maybe most important, consumers. There are many surveys showing that consumers are very interested in ethical issues, but just do not know what to believe.

82% of consumers prefer to purchase goods and services from companies that are socially and environmentally responsible, including 23% who would choose to do so even if the ethical option is more expensive. However, the vast majority are unable to put that principle into practice due to a lack of clear and credible information about the ethical practices of

The Ethical Trading Initiative and Social Reporting

Ethical Trading Initiative (ETI) members are not required to produce a public report, but must report to the ETI (using a standard format). Companies are invited to share their reports with the other stakeholders - NGOs and unions - on conditions of business confidentiality. Only two companies did not agree to this in 2003. Some corporate members, such as the Co-operative Group, publish their report, and are in favour of all reports being published. Reports are analysed by an independent organisation, Incomes Data Services (IDS).

The aims of the annual reporting process for the ETI are outlined below.¹²

For the ETI:

- Review progress of individual members and assess continuing membership eligibility
- Review progress of the ETI corporate membership as a whole
- Reinforce members' commitment to transparency and public accountability
- Document and share good practice

For individual companies:

- Assist in assessing own progress towards achieving code compliance within its supply chain
- Enable comparison of own performance relative to others
- Enable members to learn from each other's experience through sharing of reports

The whole process has been the subject of a review. Some tentative conclusions are that benchmarking was very important. The value of a common format was that serious companies could be clearly separated from those with good PR gloss. There should also be a way of 'rewarding' companies for good effort. ETI is also trying to deal with the issue of 'one size fits all'. With the large variation in terms of size, possibilities of different reporting requirements are being examined.

¹² ETI Workbook step-by-step to ethical trade, ETI, London, 2003

⁸ Chris Gribben and Leon Olsen, *An Anchor - Not the Answer Trends in Social and Sustainable Development Reporting*, Ashridge Centre for Business and Society, June 2003

⁹ Business Respect - CSR Dispatches No#51 - 9 Mar 2003

¹⁰ Voluntary Quality Standard for Corporate Sustainability and Responsibility Research www.cssr-qs.org.

¹¹ Carrefour, Sustainability Report 2002

companies. Only 2% of shoppers say they mostly have enough information to judge the ethical position of companies whilst 73% say they lack such information most of the time.¹³

Satisfying stakeholders

While many companies refer to stakeholders, or partners, practice varies very widely indeed. Sometimes, they are incorporated into a formal mechanism; sometimes they remain as a wider group. Like CSR, stakeholder theory is a relatively new and evolving concept. All the emerging CSR reporting standards include stakeholder involvement.

A distinction has been drawn between broad-focus and narrow-focus stakeholder groups. 'Broad focus', are the socially responsible investment community, and NGOs. Narrow focus, are employees and suppliers.

The broad focus groups look for more information and engage in an active debate with companies over the content and format of reports.

Narrow focus stakeholders are allegedly not interested in all the issues covered in reports. The amount and complexity of information is more than they want, and can make them feel less confident.

Carrefour draws a distinction "between «direct» stakeholders who derive profits from the value created by the company and towards whom we are particularly responsible, and «indirect» stakeholders."

Key direct stakeholders are: customers; franchisees; suppliers; employees; service providers; national and international public authorities; local government and shareholders.

Key indirect stakeholders include: professional organisations; the media; social and environmental groups and the financial community.

Many reporting companies do not draw this distinction between first and second division stakeholders. For example, the UK Co-operative Bank, which produces one of the most consistently praised series of reports, identifies seven stakeholder groups - called 'partners' by the bank: shareholders (in the case of the Co-operative Bank, as it is wholly owned by a consumer co-operative, its shareholders are the Co-operative Group); customers; staff and their families; suppliers; local communities; national and international society; past and future generations of society.¹⁴

Both companies involved on the SOLIDAR project involved stakeholders in the reporting cycle. Aviva has an annual Review Meeting when the CSR team and managers meet 'partners' which include World Wide Fund for nature (WWF) and Business in the Community. The meeting reviews the direction and content of the company's CSR programme. Carrefour convenes a meeting with stakeholders to review CSR reports. The company's CEO attends - indicating a commitment at the very highest level.

What to report: the content of CSR reports

Companies have to choose carefully what and how to report depending on the nature of their business. There is a growing tendency for convergence on the key areas reported, if not in the way in which this is done.

In the absence of any broadly acceptable or mandatory guidelines, it is up to companies themselves to decide what information they include in their reports. While the Global Reporting Initiative's template is gaining acceptance in many circles, many companies still feel it does not reflect the complexity of their particular situation.

The ILO analysed reports of the top 100 Multi-national Enterprises (MNEs) in the OECD countries (according to the UN World Investment Report 2000) and the top 50

developing country MNEs. The social reports of these companies were collected from company web sites and their contents analysed using 64 indicators derived from the ILO Declaration on Multinational Enterprises.

The issues most frequently reported on included wages, non-discrimination, training, health and safety, and total employment. The subjects least frequently reported on included equal remuneration (a basic right, according to the ILO) and job security. The ILO's fundamental principles and rights regarding freedom of association, collective bargaining, forced and child labour, as well as references to working hours were also relatively low, all being covered by fewer than 10 per cent of the reports analysed.¹⁵

A consultancy company, ERM, recently reviewed the use of social indicators by the FTSE100 and found that while 79 are publishing some social information on their website, only 16 companies use any quantitative performance data to back up their policy assertions.¹⁶

Key Performance Indicators (KPIs)

Companies generally have a number of key financial performance indicators, such as sales per square metres in the retail sector.

Reporting frameworks, as well as individual companies, are trying to develop KPIs for CSR performance, as a way to measure success and improvement - and inclusion in CSR reports. Clearly, they must be 'key' - there cannot be hundreds. They must be about 'performance' and they must indicate something that is useful to know and which is relevant to the business. They must also be useful outside the organisation, so that those who do not know the business can understand them.

There is also the issue of cost. While much of the information may already be available and collected centrally (these are not always the same thing) there could be large costs

involved in collecting indicators.

For trade unions, volumes of detailed indicators were felt to be less important than a demonstration that companies understand their obligations. More useful might be a list of factories from where a company is sourcing. Companies, while accepting the principle of transparency in the supply chain, might find this too difficult, as in many cases, the full list of suppliers, contractors and sub-contractors might include tens of thousands of names.

Companies that take reporting seriously are looking for indicators that are meaningful for the business and stakeholders alike. There are indicators now available from Business in the Community, the Global Reporting Initiative and sectoral initiatives such as the FORGE Group in the UK, which is developing a set of guidelines specifically for financial services companies. Aviva has been involved in the working group which is developing these guidelines, and will be incorporating relevant indicators into its own management system.

Aviva, for example, reports on eight areas:

- Environment
- Community
- Workforce
- Human Rights
- Health and safety
- Suppliers
- Customers
- Standards of Business Conduct

In the GRI framework, three of these (Customers, Suppliers and Employees) are included under one category - Direct Economic Impacts.

Carrefour provides an index in its report to guide readers to find the GRI indicators - which the GRI itself expects.

An increasing focus is being placed on 'materiality' in reports. Again, there is no

¹³ Race to the Top: how government, business and consumers can drive CSR, Social Market Foundation, London, August 2003
¹⁴ Source: Chris Gribben and Leon Olsen, An Anchor - Not the Answer Trends in Social and Sustainable Development Reporting, Ashridge Centre for Business and Society, June 2003; and Co-operative bank, Partnership Report 2002

¹⁵ Information note on corporate social responsibility and international labour standards, ILO Governing Body paper, March 2003
¹⁶ Deborah Doane, Market failure: the case for mandatory social and environmental reporting Head, New Economics Foundation March 2002

exact definition, but materiality is the information stakeholders require to make a judgement about a company. This is quite straightforward in the model where the only 'stakeholder' was the shareholder. As companies accept the concept of a wider range of stakeholders, how is materiality to be defined? This is an on-going debate.

Companies are certainly seeking to make reports more comprehensive, an issue which is reflected in the length of reports. Research by the United Nations Environment Programme (UNEP) found that between 2000 and 2002, reports increased on average by 45%.¹⁷

How are reports verified or assured?

The credibility of reports is crucial. The consultancy Sustainability has said: **2002 saw trust emerge as a Holy Grail for business, as investor and wider societal trust in major corporations was eroded in the wake of major corporate collapses and scandals.**¹⁸

Financial reports require an independent auditor, who assures the reader that the accounts represent the truth. The auditing is done to recognised standards. However, "There are no internationally recognised reporting and assurance standards for corporate social responsibility."¹⁹

While recent experiences have cast some doubt on the integrity of some auditing firms, these are still the assurers of preference for many CSR reports. Aviva, for example, uses the same firm which audits its financial accounts to assure its CSR reports. Aviva's reasoning is that the exiting financial auditor will know the company well. In the link between financial, environmental and social areas, who better to judge the benefits of being a good corporate citizen than a company's auditor?

Carrefour used in-house auditing to verify its

key performance indicators in its 2002 report and in its 2003 report. The internal auditors controlled reported data in the majority of countries where Carrefour is present providing a level of confidence for the reported data. Additionally in 2003 Carrefour called upon a third party to verify its reporting and internal audit processes. It has engaged Bureau Veritas (BV) to externally verify its latest CSR report. BV can verify the methodology of its in-house audit.

Research undertaken in 2002 by KPMG found that 27% of reporters included a third-party verification statement, compared with 18% in 1999. Verification rates are by no means uniform across the world: in the UK 53% of reports surveyed were verified, whilst in the USA and Germany just 3% and 6% respectively were verified.²⁰

The Ethical Trading Initiative in the UK draws this distinction:

There is a difference between fulfilling a responsibility and convincing others that you have fulfilled this responsibility. This is the essential difference between the concepts of monitoring and verification

The ETI goes on:

'verification' would be performed by qualified persons working to agreed processes. Both the qualifications of the persons and the processes involved would be have to be established in a legitimate manner. These qualifications and processes, as well as how they are established, would also have to enjoy widespread acceptance. ..verification should be carried out by professionals working to defined standards... Verification rules and processes would always apply, regardless of the wishes of the company on whose behalf the verification was being performed or of those who were paying for it. There would also have to be some system of sanctions for verifiers who failed to respect

the rules or procedures.²¹

It may be that to achieve this, there needs to be an umbrella body, at global level, to establish the 'rules' for external verification. Neil Kearney, General Secretary of the International, Textile, Garment and Leather Works' Federation (ITGLWF) has proposed an accreditation body that would appoint and oversee verifiers. He believes that this would "eliminate conflict of interests brought about by the current system where financial auditors provide assistance for audit preparations." Mr Kearney proposes that the ILO could identify the competencies necessary to provide meaningful, reliable verification.

While the ILO has the competence for the social elements in CSR, it does not for other areas, for example environmental or standards of business conduct. A multi stakeholder organisation would be required.

AA1000

The AA1000 Assurance Standard has been developed to try to fill the gap. It is a product of the International Council of the Institute of Social and Ethical AccountAbility (often known simply as AccountAbility). Members are from business, not-for-profit, academic and

consultancy organisations.

Launched in 1999, AA1000 is essentially an attempt to produce an auditing methodology for social, ethical and environmental accounting, auditing and reporting. It claims: The AA1000 Assurance Standard is intended to... offer a practical, robust and transparent approach to assurance that provides credibility to public reporting and to corporate business processes.

There is a strong focus in AA1000 on stakeholder mapping and engagement.

Conclusions

From an examination of CSR reports, it is possible to draw conclusions about best practice, which could form the basis for a minimum European standard. To command credibility, a report needs:

- To be based on international standards, such as the Universal Declaration of Human Rights, the European Social Charter, the OECD Guidelines, ILO core conventions and the principles of the Global Compact;
- To demonstrate stakeholder involvement;
- To be independently verified or 'assured'.

¹⁷ Quoted in Chris Gribben and Leon Olsen, *An Anchor – Not the Answer Trends in Social and Sustainable Development Reporting*, Ashridge Centre for Business and Society, June 2003

¹⁸ Trust Us: The Global Reporters 2002 Survey of Corporate Sustainability Reporting, 2003

¹⁹ Aviva, *Corporate Social Responsibility Report, 2003* – statement by Price Waterhouse Coopers, page 10.

²⁰ KPMG *International Survey of Corporate Sustainability Reporting 2002*, quoted in Co-operative bank, *Partnership Report 2002*

²¹ Ethical Trading Initiative, *Workbook, July 2003*, page 83

ben&jerry

A brief history of CSR reporting²²

The first serious CSR report was Ben & Jerry's, which in 1989 commissioned a "social auditor" to work with the B&J staff on a report covering 1988. The "social auditor" was given free rein to interview anyone in the company for two weeks, on any day or night shift. The social auditor was also encouraged to speak with suppliers such as their dairy processor, and with public and private representatives of the community.

This social auditor recommended that the report be called a "Stakeholders Report" and that it be divided into the major stakeholder categories. B&J prepared the Stakeholders Report with the social auditor's input and the social auditor then appended a "Report of Independent Social Auditor" and signed it, saying it was his "opinion that the Stakeholders Report fairly describes the performance of the company in the area of social responsibility for the year 1988 with respect to the five stakeholder groups"

In the UK, the Body Shop International and Co-operative Retail Services began producing similar reports a few years later. Much of the early work in this area was undertaken by the London-based New Economics Foundation (NEF). Traidcraft claims to have published the first independently audited social accounting report by a British PLC in 1993.²³

²² Partly based on Alice and John Tepper Marlin, A brief history of social reporting in Business Respect - CSR Dispatches No#51 - 9 Mar 2003, <http://www.mallenbaker.net/csr/nl/index.html>

²³ "Modernising Company Law and Enhancing Corporate Governance in the European Union - a Plan to Move Forward" Communication from the Commission COM (2003) 284 final - A Response by Traidcraft

reporting

Reporting - a history and experiences of two companies

The experience of two companies

The two companies participating in the project told us about their experience of reporting.

Aviva

Aviva's first report was produced in 1999. The first 3 reports (1999, 2000 & 2001) focussed on the environment. Since 2002 however (reports 2002, 2003 and 2004) the report has extended to include other areas of CSR performance. Aviva now aims to make CSR "part of its DNA" as a business - graphically illustrated by the DNA double helix on the cover of its 2003 and 2004 reports.

Aviva reports use the FORGE guidelines. FORGE is a group of insurers and banks, which has produced financial sector-specific guidance on reporting environmental and CSR performance. A dedicated CSR team has overall responsibility for production of the CSR report. A reporting template is sent to business units in the fourth quarter of each year for completion. This helps to ensure consistency of reporting and to ensure all relevant information is captured.

A printed summary is available (3,000 copies) and the full version is available on-line. Readers of the on-line and printed version are invited to respond, but experience at receiving feedback has been limited.

Aviva identified benefits flowing from reporting: internally, it is an awareness-raising tool to support the improvement of CSR performance, and externally, a range of stakeholders benefit from transparency in the process of change in Aviva.

Carrefour

Carrefour has three years experience of reporting and has steadily expanded the scope to include more of the countries and business activities in which it operates. It has developed and improved its quantitative reporting with the publication of internal audited performance indicators.

While using the Global Reporting Initiative as a reference for the report content, its reports tell the story of how Carrefour is developing and applying its progressive approach to sustainable development in all the facets of its business: from products and suppliers through logistics to stores, its personnel, customers and in local communities Carrefour collects data (quantitative and qualitative) on its activities through a managed reporting system. Information is also gathered by Carrefour and an external agency (which edits and prints the report) through face-to-face and telephone interviews with internal and external stakeholders.

Approximately thirty thousand copies are printed in three languages and distributed internally and to various external stakeholders. Carrefour organises an annual stakeholder meeting to discuss the report and feedback for this is fed into the process of compiling the next year's report.

Carrefour started reporting before the new French law (see below) came into force. The main impact of the French law was on other companies who had not started reporting and on the increased media attention to the number and quality of reporting.

The cost of reporting

Both companies incurred substantial expenditure in collecting the information needed for reports, in producing and distributing them, and of course, in actually implementing CSR policies. It was difficult to put precise and comparable figures on these costs, but both Aviva and Carrefour felt that the expenditure was worthwhile. Companies have to make a judgement about costs, and the flow of benefit from CSR was so overwhelming that it was pointless to attempt to draw up a cost/benefit analysis. Clearly, in some areas, like the environment, it is possible to quantify a benefit and set it against a cost.



The OECD Guidelines for Multinational Enterprises?

Council of Europe Social Charter?

ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy?

ILO Declaration on fundamental principles and rights at work?

The International Bill of Human Rights?

The terms of reference of the European Multi-Stakeholder Forum on CSR (EMS CSR Forum) specifically referred to:

Internationally agreed instruments such as OECD Guidelines for multinational enterprises, Council of Europe Social Charter, ILO core labour conventions and the International Bill of Human Rights.

These are the source of many codes and other voluntary CSR initiatives. It was the view of participants in the SOLIDAR project that the most appropriate CSR standards were those adopted by governments, international and inter-governmental organisations such as the ILO and OECD. These were seen as more credible than anything set up by companies themselves. Voluntary initiatives, such as SA 8000 have more legitimacy when they use existing standards such as ILO conventions.

These standards do not say very much about reporting or verification. While the OECD Guidelines are addressed to enterprises, responsibility for their implementation rests with governments.

We will briefly consider these standards.

The OECD Guidelines for Multinational Enterprises

The Guidelines for Multinational Enterprises were first adopted in 1976, following public concern that multinational enterprises were becoming too powerful. At the time, there were negotiations at the UN over what was expected to be a binding code of conduct on transnational corporations. The ILO also produced its Tripartite Declaration of Principles on Multinational Enterprises and Social Policy in 1977.

The OECD Guidelines were used in the 1970s and early 1980s, but subsequently became little known and used. With the revival of concern about corporate behaviour in the 1990s, the OECD in 1998 launched a review of

the Guidelines. In June 2000, the 30 OECD member governments, plus Argentina, Brazil and Chile adopted the new set of Guidelines together with enhanced implementation procedures.²⁴

The Guidelines cover a range of corporate citizenship areas, including employment and industrial relations, environment and combating bribery. The Guidelines are not, of course, enforceable, although a complaint can be made to a National Contact Point (NCP) about non-adherence to the Guidelines. The National Contact Points only exist in countries which adhere to the code - basically OECD members and currently four other countries. The Guidelines allow NGOs and trade unions to raise complaints against companies, and impose a positive duty on governments to help resolve these complaints.

This is in contrast to the OECD's 1999 Convention on Combating Bribery, which has to be adopted into national law by member states, in a similar way that directives of the European Union have to be transposed into national law.

There have been very few studies of the impact of the Guidelines. One review calculates that

Since 2000, approximately thirty cases have been brought internationally, covering issues such as health and safety at work, freedom of association, and the use of forced or bonded labour and company operations in Burma. While a few of the cases have been resolved amicably and others have ceased to be relevant, most have not been resolved. The main reason appears to be reluctance of most governments to implement mechanisms that create the impression of holding companies to account.²⁵

The authors argue that the absence of effective dispute resolution mechanisms undermines the relationship between

companies and stakeholders. And it leaves companies open to action through courts or "through the court of public opinion" for their CSR failings. The Guidelines therefore lose their credibility.

The Guidelines do mention reporting by companies, unlike any other of the international standards referred to in the terms of reference of the EMS CSR Forum:

Enterprises are also encouraged to apply high quality standards for non-financial information including environmental and social reporting where they exist. The standards or policies under which both financial and non-financial information are compiled and published should be reported.

Enterprises are encouraged to communicate additional information that could include:

- **Value statements or statements of business conduct intended for public disclosure including information on the social, ethical and environmental policies of the enterprise and other codes of conduct to which the company subscribes. In addition, the date of adoption, the countries and entities to which such statements apply and its performance in relation to these statements may be communicated;**
- **Information on systems for managing risks and complying with laws, and on statements or codes of business conduct;**
- **Information on relationships with employees and other stakeholders.**

At the time the OECD Guidelines were adopted, there was some discussion that they should take the form of a convention. If this had happened, like the Bribery Convention, then the effect would have been that countries would have had to introduce some CSR reporting requirements with the force of law.

Council of Europe Social Charter

The European Social Charter is a European treaty for the protection of fundamental social rights, opened for signature in 1961 in Turin. It was supplemented by the revised Social Charter in 1996 which updated the rights set out in the Charter. It is a comprehensive document. Contracting parties - governments - have to submit reports to the Council of Europe, but there are no reporting requirements on any other entities. It is possible to make complaints to the Council of Europe that a government has failed to fulfil its obligations (as is the case with ILO conventions).

ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy

The Governing Body of the ILO adopted this declaration in 1977 and amended it in 2000. It covers a very wide range of issues including core workers rights, industrial relations, safety and health, and vocational training.

There are no procedures for reporting by enterprises themselves. The ILO does however carry out surveys in which governments report. There is also a Procedure for the examination of disputes concerning the application of the Tripartite Declaration. Under this, it is possible for governments, employers and workers organisations to apply to the ILO for 'interpretation' of clauses in the Declaration.

ILO Declaration on fundamental principles and rights at work

The International Labour Conference adopted this unanimously in 1998. This said that all states, by the very fact of their membership of the ILO, should abide by the rights and principles contained in certain 'core' conventions. These are:

1. Conventions 87 and 98 on freedom of association and the effective recognition of the right to collective bargaining;

²⁴ Trade Union Advisory Committee to the OECD (TUAC), Users' Guide for Trade Unionists to the OECD Guidelines to Multinational Enterprises, Paris, 2003

²⁵ Rory Sullivan and Craig Mackenzie, "The OECD Guidelines for Multinational Enterprises", Ethical Corporation, 13 November 2003

²⁴ Trade Union Advisory Committee to the OECD (TUAC), Users' Guide for Trade Unionists to the OECD Guidelines to Multinational Enterprises, Paris, 2003

²⁵ Rory Sullivan and Craig Mackenzie, "The OECD Guidelines for Multinational Enterprises", Ethical Corporation, 13 November 2003

2. Conventions 29 and 105 on the elimination of all forms of forced or compulsory labour;

3. Convention 138 on the Minimum Age for entry into work; and Convention 182 on the Worst Forms of Child Labour

4. Conventions 100 and 111 and the elimination of discrimination in respect of employment and occupation.

Governments are required to report to the ILO about the implementation of the conventions they have ratified. These are the basis for a high level independent committee of jurists, the Committee of Experts on the Application of Conventions and Recommendations, which meets in December each year and produces a report, discussed at the annual International Labour Conference.

An annual global report is also prepared by the International Labour Office, focussing on one of the four fundamental rights, and this is also submitted to the International Labour Conference. But again, these reports do not refer to what individual companies are doing.

The International Bill of Human Rights

The International Bill of Human Rights consists of:

Universal Declaration of Human Rights;

International Covenant on Economic Social and Cultural Rights; and

International Covenant on Civil and Political Rights

The Universal Declaration of Human Rights is not an international treaty open to ratification. It is regarded as solemnly binding on all people and all 'organs of society'.

Both of the international covenants are open to ratification by governments. They therefore

impose obligations on governments not employers.

United Nations Initiatives

Finally, although not specifically mentioned in the Terms of Reference of the Multi Stakeholder Forum, it may be useful to discuss two United Nations initiatives.

The Global Compact

The Global Compact is a voluntary corporate citizenship initiative - a direct initiative of the United Nations Secretary-General - with two complementary objectives:

- Making the Global Compact and its principles part of business strategy and operations;
- Facilitating cooperation among key stakeholders and promoting partnerships in support of UN goals.

The Global Compact is not a regulatory instrument - it does not "police", enforce or measure the behaviour or actions of companies. It relies on public accountability, transparency and the enlightened self-interest of companies, labour and civil society to initiate and share substantive action in pursuing the principles upon which the Global Compact is based.

A company which signs up to the Global Compact is "expected to publish in its annual report (or similar corporate report) a description of the ways in which it is supporting the Global Compact and its nine principles".

The Global Compact principles are:

Human Rights

Principle 1: to support and respect the protection of international human rights within their sphere of influence; and

Principle 2: to make sure their own corporations are not complicit in human rights abuses.

Labour

Principle 3: to uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: to support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Learning is spread through meetings and national networks. Companies can also share examples of corporate practices on the Global Compact web portal.

The UN Sub-Commission

The UN Sub-Commission on the Promotion and Protection of Human Rights²⁶ at its 55th session, held from 28 July to 15 August 2003, adopted a resolution calling upon the UN to monitor business compliance with international treaties governing human rights, labour, environment, consumer protection and anti-corruption laws. Such a move would be the first step towards a global compliance framework.

It approved the draft Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights.

According to the commentary with the Draft Norms, "the UN Commission on Human Rights should consider establishing a group of experts, a special rapporteur or working group of the commission to receive information and take effective action when businesses fail to comply."

The draft has been sent to the UN Commission on Human Rights for consideration and adoption by the Commission, which meets in March 2004. A considerable debate is expected.

²⁶ Created by the Commission on Human Rights in 1947 and consisting of 26 Experts from five regional groups, the Sub-Commission undertakes studies and makes recommendations to the Commission.

Standards and reporting frameworks



Standards and reporting frameworks

There are now a growing number of voluntary CSR initiatives. The concept and practice of CSR is still in its infancy, and a good deal of experimentation continues. This needs to continue while at the same time, identifying and encouraging the spread of good practice. Practice has to develop before it is 'frozen'.

According to the World Bank, there are more than 1,000 'codes of conduct' adopted by companies.²⁷ The ILO has noted that: "the number of international initiatives concerned with accreditation, certification, monitoring and inspection that (the ILO) has knowledge about increased from three in 1998 to 12 by the end of 2002."²⁸

They can be categorised as:

1. Multi-stakeholder Initiatives: Umbrella membership-based organisations, with a code of conduct, usually based on ILO standards. Almost all are focussed on the apparel, sportswear and leisure shoe sector, not, for example, the extractive industries, or services sector. Membership is usually Multi-stakeholder, includes companies, and a range of constituencies such as trade unions and NGOs.

2. Standards based organisations, modelling themselves on ISO. While these can be membership based, this need not necessarily be the case.

3. Reporting frameworks.

1. Multi-stakeholder Initiatives (MSIs)

The first category, the umbrella multi-stakeholder membership initiatives (MSIs), generally has some of these elements:

- code provisions that are usually more comprehensive and more consistent with ILO Conventions than the 'first generation' of self-generated company codes;

- forums for exploring and testing audit methodology and implementation of specific code provisions;

- better defined methods and procedures for internal monitoring and external verification of compliance with code provisions;

- requirements for the adoption of management systems by suppliers to provide verifiable evidence of code compliance;

- largely untested mechanisms for registering worker and third-party complaints when the code is being violated.

Some MSIs are US-based, such as the Fair Labor Association (FLA), Worldwide Responsible Apparel Production Certification Program (WRAP) and Worker Rights Consortium (WRC). Two are EU-based: the Ethical Trading Initiative (ETI) - UK, and the Fair Wear Foundation (FWF) - Netherlands.

Reporting requirements vary widely within the multi-stakeholder initiatives. For example in June 2003, the Fair Labor Association (FLA) published its first report, disclosing the efforts of seven of the eleven member companies to adhere to FLA codes of practice; the FLA saw this as an important precedent on what it hoped to be a path toward increasing transparency. It was possible to compare the different measures taken by companies to actually implement labour standard at the manufacturing facilities they use. Those who see a future for self-regulation point to this process. Through public reporting, companies will be driven into ratcheting up standards year on year - through comparison with competition in the same sector.

The main MSI groups are now exploring ways of collaborating and have met a number of times. Work on developing a common code has begun and Turkey has been chosen as a pilot.²⁹

²⁷ Company Codes of Conduct and International Standards: An Analytical Comparison, World Bank, October 2003, page 2

²⁸ Information note on corporate social responsibility and international labour standards, ILO Governing Body paper, March 2003

²⁹ ETI Update, August 2003

2. Standards based organisations

Many standard-setting organisations have developed in CSR which have some relevance for sustainable reporting.

The best known is SA 8000, a standard developed by Social Accountability International (SAI), which describes itself as ‘a human rights organisation’ that seeks to improve workplaces and communities around the world by ‘developing and implementing socially responsible standards’. The first facility certified against its multi-stakeholder global standard was an Avon factory in New York State, on January 1, 1998.³⁰

SAI is a multi-stakeholder organisation - members on its board include trade unions, companies, government, non-governmental organisations, socially responsible investors and consumers.

The key elements of SA 8000 are:

- A standard that covers all widely-accepted international labour rights (the ILO’s core standards)
- Verification of compliance - certification of facility compliance by SAI-accredited auditing bodies. There are currently nine organisations accredited to do SA 8000 certification. There are certified facilities in 36 countries and across 35 industries.
- Factory-level management system requirement to foster ongoing compliance.
- Public reporting - SA 8000 certified facilities are posted on the SAI website.

The standard has been criticised as not appropriate for all companies and for imposing unacceptable costs upon producers/manufacturers in developing countries.

The reporting element within SA 8000 is that information on certified facilities is publicly

available. It can therefore be challenged - and this has happened.³¹

In itself the SA 8000 does not provide verification. It provides a framework for ensuring socially responsible organisational behaviour, but it does not resolve the issue of how best to oversee or ensure that verifiers are truly independent or up to the task required.

SA 8000, the Forest Stewardship Council, the International Federation of Organic Agriculture and the Dutch Max Havelaar Foundation have together formed the International Social and Environmental Accreditation and Labelling (ISEAL). The formation of ISEAL is significant because it is an international group of standard-setting and accreditation bodies in the CSR sector. SA 8000 is also involved in the common platform of multi-stakeholder initiatives.

3. Reporting frameworks

The best known of the reporting frameworks is the Global Reporting Initiative (GRI)³². GRI was founded in 1997 by a US NGO, the Coalition for Environmentally Responsible Economies in partnership with the United Nations Environment Programme (UNEP). Its board includes representatives from business, trade unions, UNEP, NGOs, the accounting profession and academia. Its guidelines were first issued in draft form for pilot testing in 1999. The revised versions of the Guidelines were released in 2000 and immediately a revising process started, resulting in the 2002 Guidelines. The GRI expects to revise the Guidelines regularly. As of April 2004, 429 companies in 43 countries have used the Guidelines in shaping their reports.

The Guidelines themselves are not a code of conduct or a performance standard, but a reporting framework, an instrument for measuring and reporting an organisation’s contributions to sustainable development. To remain neutral, GRI does not verify reports. However, GRI does encourage independent

external assurance of GRI-based reports.

The UN’s 2002 Report of the World Summit on Sustainable Development recognised the Guidelines as a key initiative for encouraging industry to improve corporate accountability and responsibility. As well, UNEP has designated GRI as an official collaborating centre.

GRI’s funding has been from charitable foundations, corporations, governments, intergovernmental bodies, and assurance providers. The range of financial support is designed to ensure independence.

Through extensive feedback from companies that are using the Guidelines, GRI has revised the Guidelines to make them more flexible for first-time reporters and others. For example, as long as information is clearly indexed, reporters may modify the order in which they

present it. First-time reporters may take an “incremental” approach to reporting, such as an “environment only” report or a “headquarters country” report, while clearly indicating what is missing and how future reports will expand to include more elements found in the Guidelines.

Another initiative is Business in the Community, a two year project involving a consortium of UK companies developed (July 2003) a set of indicators for the business community - as tried and tested by the participating group of businesses. It is claimed that ‘the framework has received the most methodical testing of any comparative framework, and there are certainly a number of UK businesses who were not members who have indicated that the areas covered fit their business needs rather better than the Global Reporting Initiative, and other frameworks.’³³

³⁰ Information on SA8000 is taken from its website accessed 11 September 2003
³¹ Dara O’Rourke, Monitoring the monitors: a critique of Pricewaterhouse Coopers labor monitoring. Massachusetts Institute of Technology 2000 and Smoke from a hired gun: a critique of Nike’s labour and environmental auditing in Vietnam as performed by Ernt and Young, Transnational Resource and Action Centre, San Francisco
³² Source: GRI’s website, accessed 11th August 2003

³³ Indicators that Count. Social and environmental indicators - a model for reporting impact, Business in the Community. <http://www.bitc.org.uk/corporate-impact>



the law

Standards and reporting frameworks

This section examines some current and proposed mandatory reporting requirements for CSR in three countries: South Africa, France and the UK. In France, Norway, Denmark, the Netherlands, Australia and Sweden there already exists some form of mandatory environmental disclosure requirement.

South Africa

Since 1 September 2003, companies listed on the Johannesburg Securities Exchange (JSE) have been required to comply with the King II corporate governance codes - including compliance with the Global Reporting Initiative Guidelines. The King Report II on Corporate Governance for South Africa 2002 ("King II") was developed as an initiative of the Institute of Directors in Southern Africa. It represents a revision and update to the initial King Report first published in 1994. King II seeks to ensure that the standards of governance in South Africa are current and competitive with international norms and best practice.

The requirement for listed companies to follow its provisions puts the JSE at the extreme of stock exchanges requiring compliance with governance and social principles. One of the consequences will be that companies will now be required to report on what they are doing about the AIDS epidemic, and how the company may be affected in terms of its performance. Only ten South African companies currently follow the full GRI guidelines.³⁴

France

Changes made in 2001 to French company law requires French companies listed on the "premier marché" (that is, those with the largest market capitalisations) to report on the social and environmental impacts of their activities. Companies must report against a set of "social" indicators, which encompass three main stakeholder criteria or issues - human resources, community and labour standards. Reporting is both quantitative and qualitative. Companies are required to disclose on human resources management issues, including data

on employment indicators (i.e. total workforce, contract-types, recruitment, restructuring, outsourcing etc.), remuneration, training, working hours, health and safety, equity and diversity (i.e. integration of women and of physically challenged persons into the workforce), amongst other key indicators.

These issues have already been reported on in France through mandatory "bilans sociaux" (social reports). However, unlike the bilans sociaux (which were internal documents), the new legal framework will put such information and data into the public domain for the benefit of shareholders and stakeholders. It is not specified as to whether a company must report on a national or global basis. Corporations will also be required to report on community and civil society issues. Specifically, they must report (qualitatively) on the way(s) that they take into account the impact of their activities on local development and on local populations. In addition, they must report on how they engage with local stakeholder groups including environmental NGOs, consumer groups, educational institutions and impacted populations. There are no specific indicators for such reporting.

Finally, with regard to social issues, corporations will have to report on the way(s) in which their international subsidiaries respect the International Labour Organisation's (ILO) core labour conventions and the way(s) in which they promote the ILO conventions with regard to their international sub-contractors. Again there is a lack of indicators for such reporting.

The updated law introduces mandatory HSE (health, safety and environment) reporting for French corporations for the very first time. Corporations will be required to report on key HSE issues in the annual report and accounts, including: emissions to air, water and ground; consumption of energy, water and raw materials; the implementation of management systems (i.e. organisation, functioning,

³⁴ Business Respect - CSR Dispatches No#60 - 27 Jul 2003

programs and budget); and compliance with mainstream standards of practice or certification.³⁵

Many feel that the new law is too vague. Each company can interpret it differently and the government has already commissioned a study on its implementation. In the absence of clear criteria, it has neither helped nor hindered those companies like Carrefour, which were already reporting. It has certainly helped however to awaken media interest in CSR issues.

United Kingdom

The UK Labour Party was the first government to appoint a minister for Corporate Social Responsibility in March 2000. It introduced a regulation into the Pensions Act in 2000 requiring pension funds to disclose their policies on corporate, social and environmental responsibility. A recent survey by the UK Social Investment Fund found that 60 % of the largest pension funds (with combined assets of 430 billion Euros) had adopted formal policies committing them to engage with companies in which they invest to encourage best practice.

But to many campaigners this has not been sufficient. The Corporate Responsibility (CORE) Coalition was 'formed in response to the Government's failure in the Modernising Company Law White Paper to specify rules requiring companies to be more transparent and be held accountable to their wider stakeholders.'

The founding members of CORE were Amnesty International, Christian Aid, Friends of the Earth, New Economics Foundation and

Traidcraft (a Fair Trade organisation). The coalition is now supported by over fifty organisations, including non-governmental organisations, church groups and trade unions.

CORE advocates new company law legislation 'to level the playing field and ensure that corporations based in Britain are not only more responsible to their wider stakeholders, but are also legally accountable for their actions both here and overseas.' A Bill has been tabled, in the UK Parliament. The Corporate Responsibility Bill puts duties on companies for:

Mandatory reporting: Certain companies will be required to publish annual reports explaining the significant social, environmental and economic impacts of their operations, the policies and performance in relation to the impacts and an assessment of those impacts on any planned activities;

Stakeholder consultation: Companies must take reasonable steps to consult with and respond to broader affected stakeholders where proposed projects would have a 'significant impact' on them;

Directors' duties: Expands the present duties of company directors from just considering the financial success of a company to require them to also consider environmental, social and economic impacts of their operations, as well as the interests of all their stakeholders (not just shareholders).³⁶

The bill has full support from trade unions and, it is claimed, a number of companies, such as B&Q, the largest retailer of home improvement products and British Telecom.³⁷

Clearly, CSR is here to stay and reporting in some form is also likely to increase. Demands for regulatory frameworks will continue. The coming together of the multi-stakeholder initiatives (MSIs) may provide much needed clarity. If a common platform is developed, it will be much more authoritative. But the MSIs mainly deal with codes of conduct and monitoring issues. And they are principally confined to one sector - apparel and footwear.

The ILO, in the analysis quoted earlier, after examining a number of CSR reports sums up its findings:

This brief examination of corporate social reporting shows that individual corporate initiatives and even multi-stakeholder initiatives such as GRI are yet to lead to comparability and consistency. To date, international labour standards have not been very prominent in such reporting but this could change now that some governments have imposed, or are about to impose, mandatory reporting obligations for companies of a certain size regarding employment and labour issues.³⁸

Despite attempts by the GRI, SA 8000 and AA 1000, there is still no genuinely independent way to verify what is said by companies in reports. As long as this situation continues, reports will face a credibility problem.

The absence of a clear, legal social reporting framework does not mean that companies will avoid legal challenges to the social impact of their activities. There are increasing efforts to establish 'foreign direct liability' - holding parent companies accountable in home country courts to people affected by their environmental, social or human rights impacts in other countries. Foreign direct liability is an important testing ground for transnational corporate accountability.

South African citizens in the courts of England and Wales have brought two foreign direct

liability claims. Both sets of cases involved the use of outdated technology, which resulted in exposure of workers and their communities to mercury and asbestos.³⁹

It may well be that a robust legally binding social auditing and reporting framework would help companies avoid such legal actions in the future. The audit process would expose the risk. Reporting would alert stakeholders - and corrective action could be taken.

The case for mandatory reporting

The New Economics Foundation sums up the case for some regulation of reporting. It recommends five key actions for social reporting to have any continued relevance:

1. Prove. Social reporting has to demonstrate whether or not it can lead to improved performance. This requires in-depth research and more critical analysis of the practice.
2. Standardise. Too much effort has been spent on customising information. Social reporting needs a simpler, common set of tools to ensure its relevance.
3. Democratise. Corporate structures are barriers to full accountability. Stakeholder governance can ensure that companies are more responsive to broader social and ethical concerns.
4. Challenge. Social reporting has to be confronted head-on; the information scrutinised and the quality externally enforced. NGOs, government and journalists all play a strong role.
5. Mandate. Social reporting will only ever have any relevance if government takes it seriously. And this means requiring all companies to include social information as part of their regular annual reporting process.⁴⁰

Arguments for a voluntary approach

There are a number of arguments that can be

³⁵ Press release, 5 March 2002, from Arese, a Social and Environmental Rating Agency
³⁶ Information downloaded from CORE website, www.corporate-responsibility.org, on 14 August, 2003
³⁷ Hansard, House of Commons debates, 26 Mar 2004 : Column 1205

³⁸ Information note on corporate social responsibility and international labour standards, ILO Governing Body paper, March 2003
³⁹ Halina Ward, Corporate accountability in search of a treaty? Some insights from foreign direct liability, The Royal Institute of International Affairs, London May 2002
⁴⁰ New Economics Foundation, 8/11/00

advanced against a system of mandatory reporting:

1. the cost;
2. a one size fits all reporting framework will not be flexible enough for all companies;
3. the loss of innovation and experimentation which a voluntary framework allows.

The costs of reporting

There is not much information available about the cost of reporting.

Quite small companies have produced reports at a low cost. Traidcraft plc estimates that producing its 'social accounts' - including audit - costs £25,000. Its turnover was £10.38 million in the year ending 31 March 2002 and it has 85 employees, and it is therefore classed as a Medium Sized Enterprise.

The Social Accounts conform to the social accounting standard AA1000 and they are audited by external auditors. Traidcraft says, 'This clearly goes to show that small companies can affordably produce social accounts - if the will is there.'⁴¹

It can also be argued that a truly ethical company, which regards CSR as a core activity, a way of doing business, will not be deterred by cost.

One size fits all

It is absolutely correct that a single rigid reporting framework could fail to take account of the many different sectors, sizes of companies and different corporate traditions. Consolidated reporting systems also make it potentially more difficult for different corporate structures. Carrefour, for example, could provide little quantitative data in its first report. It has a decentralised system which is common in French companies, which promotes departmental autonomy in the field, while corporate executives define general policies. This type of flexible organisation fosters the development of initiatives that are

well adapted to local economic, cultural and environmental conditions, but makes it difficult to collect and consolidate data centrally.

On the other hand, an element of standardisation would have benefits. At the moment, when a company can choose which, if any, indicators it uses, comparing data can be difficult. A simple example: reporting on the company's Carbon Dioxide emissions. Company A might choose to report total Carbon Dioxide emissions; Company B Carbon Dioxide emissions per employee; Company C the Carbon Dioxide emissions per unit of sales. A standard measurement would make comparison easier.

A balance has to be struck between the desirability of reports which can lead to easy comparison of key data, and the need for flexibility.

The loss of innovation

Some people believe that if reporting becomes routine, a process of ticking boxes and form filling, there will be a loss of innovation on the part of the reporting company. This need not be the case. If a standardised 'one size fits all' reporting framework was imposed on companies irrespective of sector, corporate culture or size, it would indeed stifle initiative and become yet another bureaucratic exercise.

A balance needs to be found which provides for the flexibility that different companies need, allows for innovation and experimentation and has the element of regulation which will provide the advantage of increased public credibility of CSR.

A mandatory framework is compatible with experimentation, if the right approach is followed.

Has a voluntary approach to reporting reached its limits?

The whole field of CSR has grown dramatically and credit is certainly due to those who put so

much into establishing it. In a world where corporate reputation is a more important measure of success than stock market performance, profitability and return on investment, (and where corporate brand or reputation represents more than 40% of a company's market capitalisation) credible CSR reports are increasingly important.⁴²

However, a purely voluntary approach may cause CSR to falter.

For CSR to command any credibility - and surveys show deep public distrust of many companies - there needs to be clarity and some system of oversight. The current plethora of initiatives causes confusion. Only those with a professional interest can possibly understand the different initials and acronyms.

While there has been some convergence of the main frameworks and tools for CSR reporting - GRI, SA 8000 and AA1000 - they are very far from commanding anything approaching general acceptance. We are in danger of moving towards a situation where the different reporting frameworks and assurance standards will battle it out for dominance like different video formats in the 1980s. They claim to be complementary, and CSR practitioners can appreciate how they fit together, but to wider stakeholders it must seem very confusing.

Doing nothing is not an option

Doing nothing about CSR is no longer an option for the EU. The Lisbon summit has placed social and environmental principles within the context of greater competitiveness and a social Europe. A fundamental principle of European integration is, of course, a level playing field between companies. It is accepted that companies who practice CSR will be placed at a short-term competitive disadvantage by poorer ones that do not.⁴³

The plethora of initiatives and organisations has reached a point where some clear

supra-national, multi-stakeholder framework is desirable. There is no need for the EU to invent something completely new. It can build on existing frameworks such as the ILO conventions, the OECD guidelines and the UN Global Compact.

The position is perhaps comparable to arguments about Corporate Governance. A decade or more ago, this was seen as matter for self-regulation. Now governments are increasingly legislating.

What would be beneficial would be 'a level playing field', some 'rules of the game' - a framework that does not disadvantage leaders; it should allow leaders to lead, but compel laggards to follow, so that those following good practice are not disadvantaged. Indeed, the Commission's Green Paper talked about the need for a level playing field:

The European Union itself is based on the concept of a 'level playing field', moving from a customs union to a single market to economic and monetary union - each step has 'levelled' the playing field further.

The case for the present voluntary regime is largely negative: compulsory reporting will create burdens on business, be bureaucratic and costly. It will stifle creativity and innovation.

But nobody would now argue, for example, that safety and health at work should be left entirely to self-regulation and market forces. There is a floor of legislation and enterprises can go further than this. The issue of bribery has not been left to self-regulation; the OECD chose to adopt a convention which results in national law and the UN has followed.

Companies need a framework or architecture which can help them translate the agreed global standards into practical policies (without in any way weakening the standards) and then develop the tools which they can use to implement the policies.

⁴¹ Jenny Rawstorne, 'Traidcraft plc, a case study'; in 'Modernising Company Law and Enhancing Corporate Governance in the European Union - a Plan to Move Forward' Communication from the Commission COM (2003) 284 final - A Response by Traidcraft

⁴² According to a survey of some of the world's leading CEOs at the 2003 Davos WEF. www.weforum.org/securitysurvey
⁴³ Short-term disadvantage, because the few academic studies show that companies with a better CSR record out perform the average, over the long term. See Marina M Curran, 'A systematic review of the literature investigating the link between corporate social responsibility and financial performance', *New Academy Review*, Vol. 2 No 3, Autumn 2003 and M Orlitzky et al, 'Corporate Social and Financial Performance: A Meta Analysis', *Organization Studies* 2003.

Next steps on CSR reporting

The proposals that developed out of the dialogue organised by SOLIDAR were to promote a mixture of mandatory and voluntary mechanisms. Our suggestions are:

- Identify, and officially recognise, those CSR frameworks which are valuable - because of the multi stakeholder nature of membership, and the fact that they are based on credible standards - such as the ILO or OECD. This should prevent the development of yet more CSR frameworks. This is already indicated in the terms of reference of the MSF which specifically mentioned "internationally agreed instruments such as OECD Guidelines for multinational enterprises, Council of Europe Social Charter, ILO core labour conventions and the International Bill of Human Rights."

- A further step would be the promotion of convergence of the different reporting platforms. There is no reason why this cannot happen. As mentioned in the first paper, the multi-stakeholder voluntary initiatives such as the ETI, SA8000 and the FLA, are discussing how to co-operate. The influence available to the EU could help remove the confusion which currently prevails.

- Establishing a reporting requirement. This would need to incorporate flexibility for different sectors and sizes of enterprises. The French bilan social, for example, only applies to companies with more than 300 employees. It requires reports on a wide number of indicators, and French companies do not seem to have been particularly disadvantaged by it. The Belgian bilan social is tiered - larger entities must report more than smaller entities.

- A basic starting point would be disclosure of a policy - something as simple as the requirement in UK law, for an employer to produce a statement of its health and safety policy.⁴⁴ This is also recommended in the OECD Guidelines: "Enterprises are encouraged to communicate additional

information that could include:[.]. Value statements or statements of business conduct intended for public disclosure including information on the social, ethical and environmental policies of the enterprise and other codes of conduct to which the company subscribes." A simple examination of this would quickly show if a company understood its obligations. If a company had no specific policy, it could report that fact.

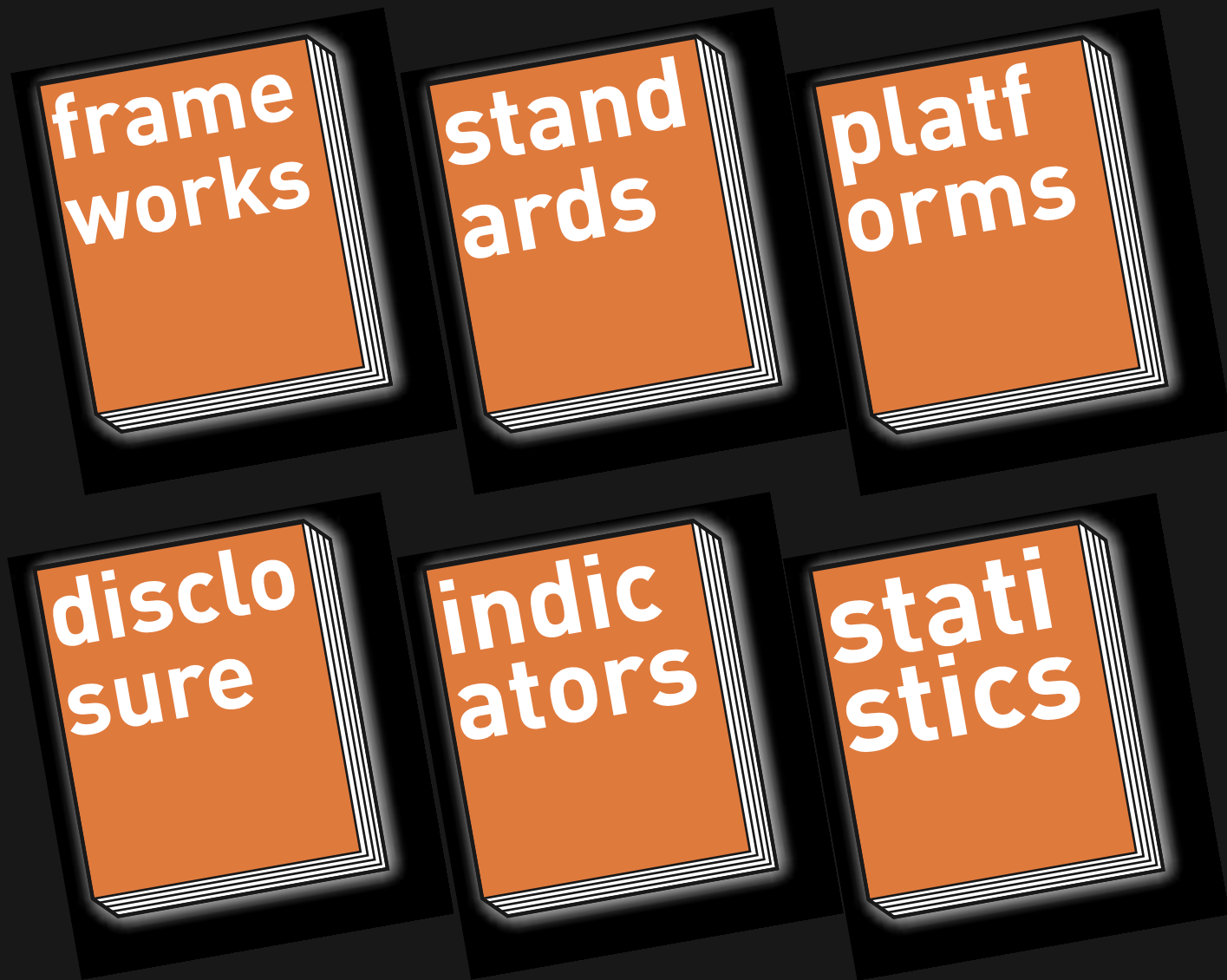
- Reporting on some key CSR indicators for all companies of a certain size would be a next logical next step. Reporting on other indicators could be required where the issues had a material impact - on society, not the business. But this should not be prescriptive. The company would need to be able to select those indicators which were appropriate.

- The implication is that detailed reports with large amount of statistics would not be mandatory. A point agreed by participants at the SOLIDAR-convened meetings was that reporting tells a story; it is the story that is important, not the reporting. A narrative may 'tell a story' more easily than large number of figures.

- We also think that the establishment of an observatory or clearing house at European level could play an important role in helping companies to identifying those frameworks and tools which they - and stakeholders - found most useful, and helping in convergence of frameworks. There is a great deal of useful experimentation in reporting, and capturing the learning from this will be important before any further extension of a mandatory reporting requirement.

- We would also suggest that action at the European level might be more appropriate through EU regulation, rather than a directive. A directive, because of the transposition process, can lead to differences in national legislation. It would be easier for companies to deal with a single clear requirement.

⁴⁴ Health and Safety at Work Act, 1974

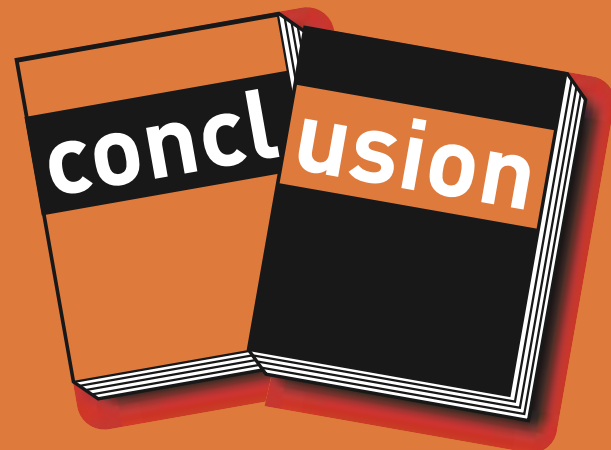


conclusion

Debates about CSR can take entrenched positions. Our project showed that some consensus is possible. Though not a formal social dialogue in the European industrial relations framework, it demonstrated that progressive companies, trade unions and civil society can develop common ground.

Transparency is a term much used in the CSR debate, and elsewhere. Reporting by companies on what they do is a part of demonstrating that transparency. We have enough experience of CSR to move forward to making transparency a “part of the DNA” of European companies.

Our proposal balances the voluntary, flexible approach – encouraging companies to choose how they report, while at the same time requiring that they do report. By promoting a ‘core’ group of international standards and some convergence of best practice in reporting tools, it will also be easier for readers and users of reports to judge them for themselves.



methodology

About the SOLIDAR project

The key part of the project was a structured dialogue between the companies, NGOs and the ICFTU over three meetings in Brussels. Two SOLIDAR partners from the south attended the first meeting, as they were in Brussels for another activity. They were Plades, Peru and the Labour Research Service, South Africa.

In addition, by desk research, social reports, codes and legalisation were examined.

Further valuable assistance was provided by The Centre, a Brussels based “think-do tank”, who on a pro-bono basis, offered advice and logistical support in hosting and facilitating the meetings. Our thanks to Paul Adamson, Martin Porter, Siân Hughes and Alin Stanescu.

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Glossary and abbreviations

A guide to some of the abbreviations and technical terms used in this report

Adoption Process	when international conference approves the text of a treaty or convention. Note this is quite different from Ratification, when a state actually agrees to implement the treaty in its own laws.
ETI	Ethical Trading Initiative
ICFTU	International Confederation of Free Trade Unions
ILO	International Labour Organisation - a United Nations specialised agency.
NCP	National Contact Point (for OECD Guidelines)
OECD	Organisation for Economic Co-operation and Development (the organisation of industrialised countries)
UDHR	Universal Declaration of Human Rights
UN	United Nations