

Introduction

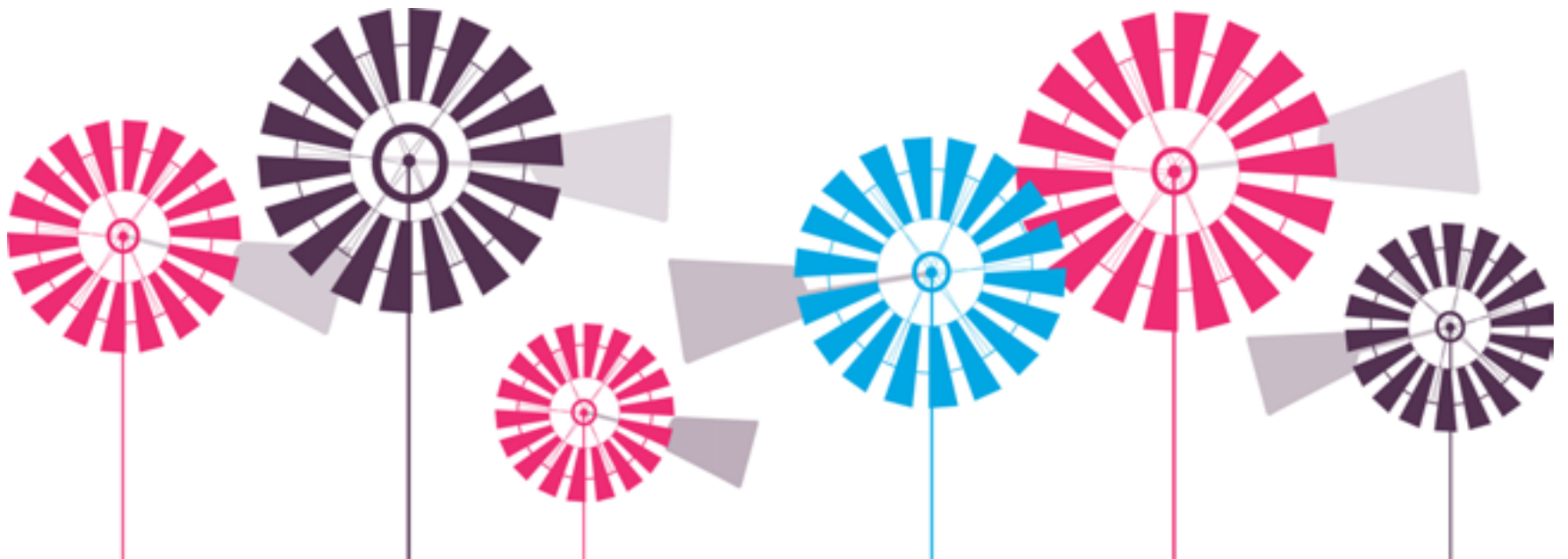
Integrated Sustainability Reporting Seminar

Prepared by Ulrike Schuermann
Momentum International Partnership

An initiative conducted
in collaboration with
Businesswriters & Design

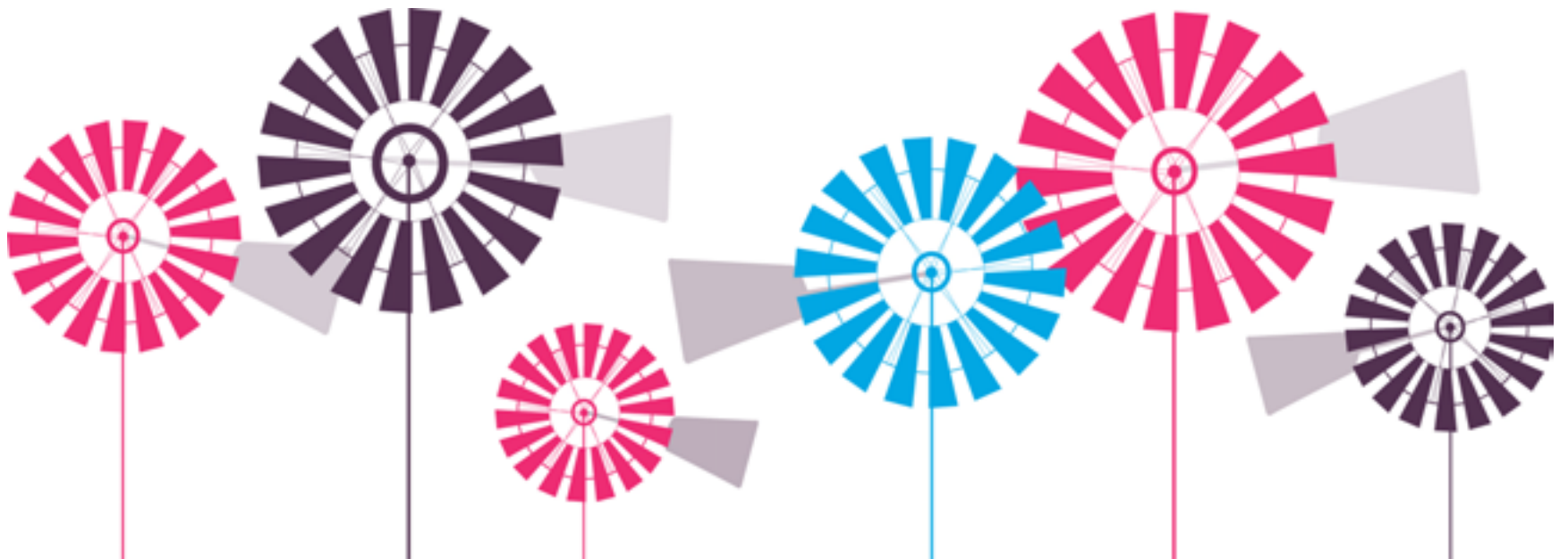
30 April 2008

Understanding



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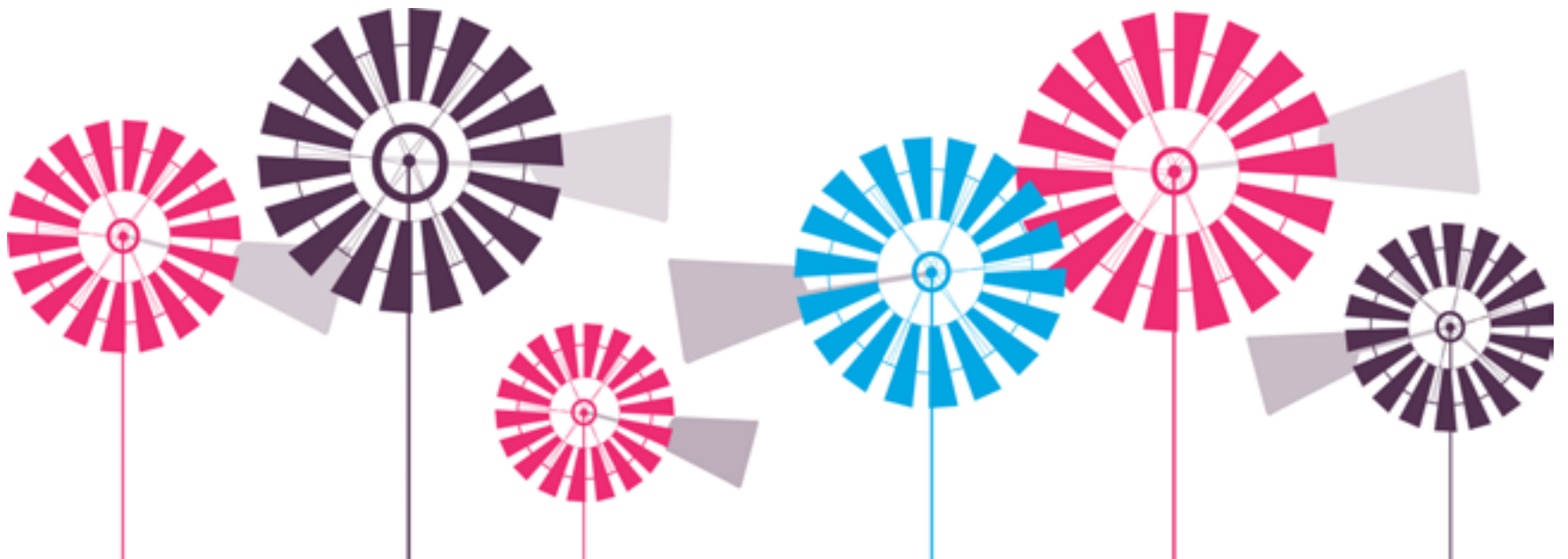
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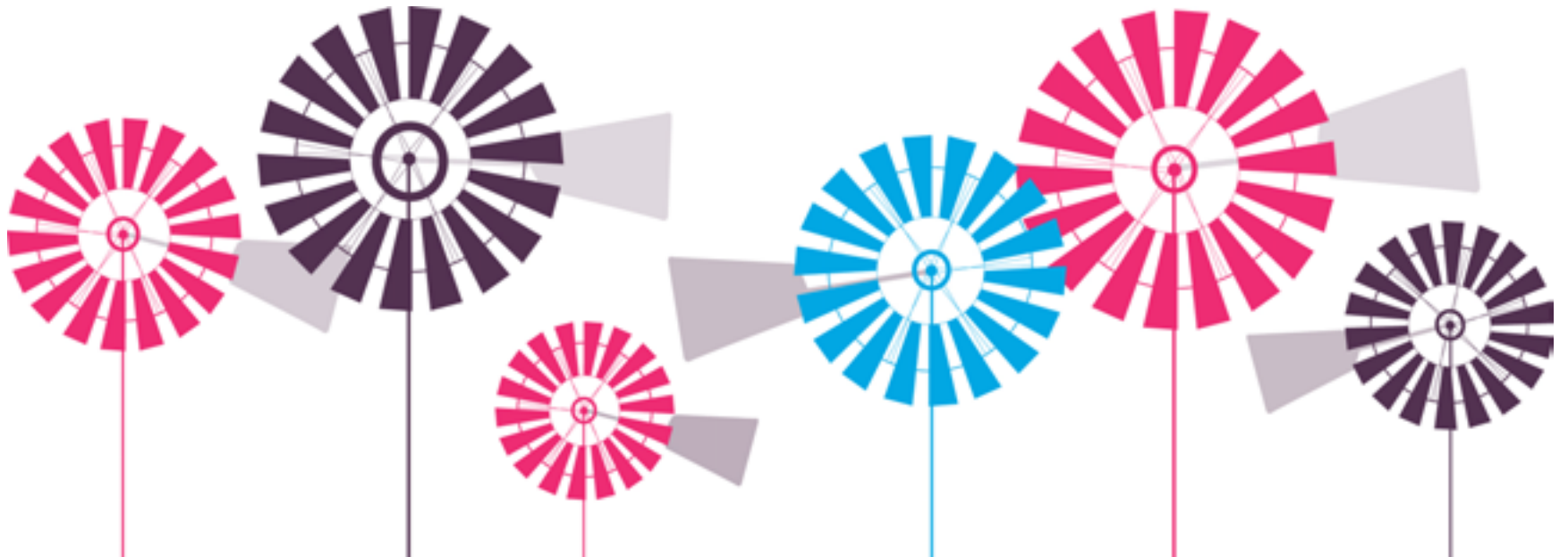
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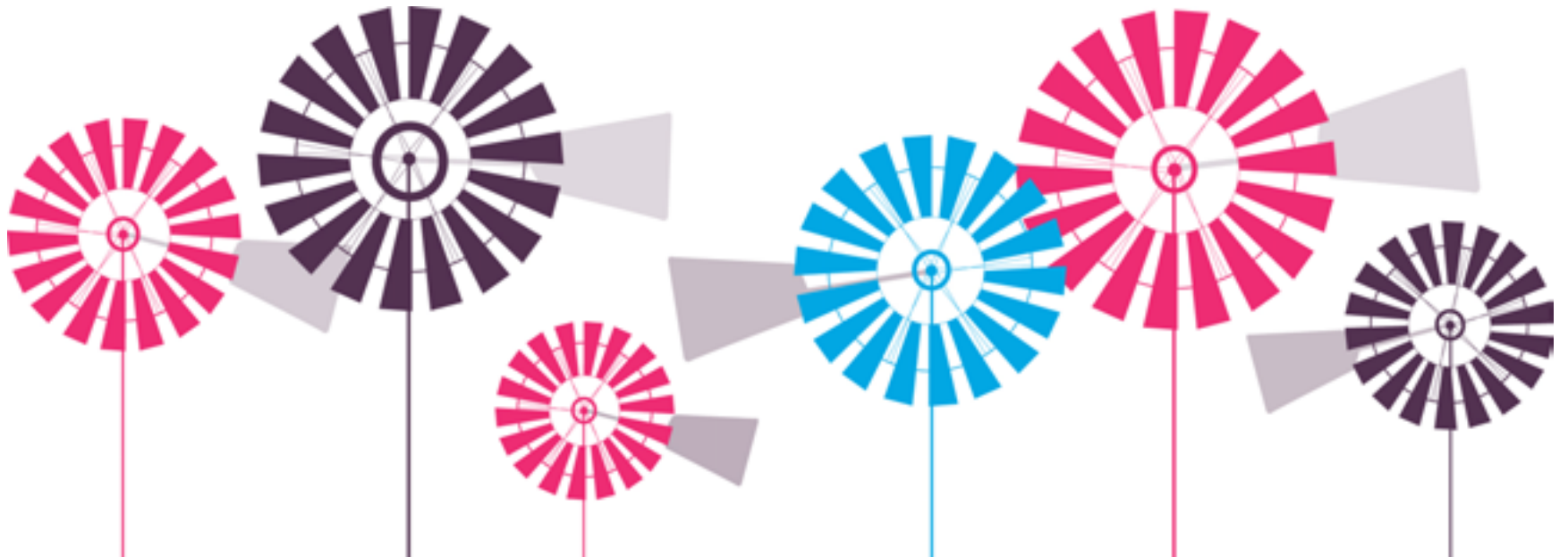
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- ...background and key developments
- ...key issues in the current debate
- ...benefits of and barriers to reporting



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- ...key issues in the current debate
- ...benefits of and barriers to reporting
- ...international and national standards, codes and guidelines



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Key question now: what should be reported and for whom?

Current Issues



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Adopting a publicly recognised set of performance indicators to streamline reporting.

Independent verification to assist in mitigating risk.

A continuing strategy to identify, and appropriately communicate with, relevant key groups (stakeholders).

The need for international cooperation to ensure consistency of data collection and to improve cost effectiveness of reporting.



Terminology



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- Corporate sustainability or
- Corporate responsibility and
- Corporate citizenship
- Corporate social responsibility
- Corporate social opportunity



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- Corporate accountability
- The triple bottom line + the fourth bottom line - governance
- Corporate philanthropy
- Corporate social investment
- Socially responsible investment



Sustainability



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1 Definition: Brundtland Commission, 1987.



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Barriers



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Lack of resources – this has consistently been identified as one of the major barriers for commencing the reporting process.

Lack of direction & common framework

Short term-ism of financial analysts???



Quote:



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P. 108 Parliamentary Joint Committee on Corporations and Financial Services.

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Standards, Codes & Guidelines



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Global Compact
Global Reporting Initiative (GRI) -
(www.globalreporting.org/)
AA1000
SA8000



Global Compact

Launched by UN Secretary General Kofi Annan in 1999, it is divided into four main areas:

- human rights;
- labour standards;
- environment; and
- anti-corruption.

Global Compact

1. Support and respect the protection of international human rights within their sphere of influence; and
2. Make sure their own cooperations are not complicit in human rights abuses
3. Uphold freedom of association and recognise the right to collective bargaining.
4. Uphold the elimination of forced and compulsory labour.
5. Uphold the effective abolition of child labour.

Global Compact

6. Eliminate discrimination in respect of employment and occupation
7. Support a precautionary approach to environmental challenges.
8. Encourage the development and diffusion of environmentally friendly technologies.
9. Undertake initiatives to promote greater environmental responsibility.
10. Businesses should work against corruption in all its forms, including extortion and bribery.

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Created well known sustainability reporting **guidelines** through worldwide multi-stakeholder network.

Its vision is that “reporting on economic, environmental, and social performance by all organizations is as routine and comparable as financial reporting.”

GRI is **not** a code of conduct or a performance standard.



GRI Framework: G3

The reporting framework consists of three broad areas:

1. Sustainability Reporting Guidelines
2. Technical Protocols (e.g. how to set boundaries)
3. Sector Supplements

The Guidelines contain a detailed list of disclosure items including:

- Economic
- Environmental and
- Social:
 - Labour Practices and Decent Work
 - Human Rights
 - Society
 - Product Responsibility

Each of these indicators are further divided in disclosure on the management approach and performance indicators.

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Critics of the GRI complaint that:

- a) Even if companies fully comply it does not give stakeholders the information they want.
- b) The cost for business - in comparison to the benefit obtained - is too high.

This is due to the requirements that were designed by committees without business processes in mind.



The AA1000 Accountability Standard

Launched in 1999 by AccountAbility, (the Institute of Social and Ethical Accountability, UK) the AA1000 framework is an accountability standard designed to improve accountability and performance by **learning through stakeholder engagement**.

The principle underpinning AA1000 is inclusivity. It does not prescribe what should be reported on but rather the 'how'. In this way it is designed to complement the GRI.

Conclusion



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Reporting is an important part of the ESG agenda but not an end in itself.



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Reporting is an important part of the ESG agenda but not an end in itself.

This is a fast moving field with newly emerging rules and players.

Current research needs to rely on small samples (by necessity).

Sustainability reporting may evolve into a process of reporting on sustainability issues on an ongoing basis rather than evolve into ONE REPORT.



Social Accountability International (SAI)

SAI is a U.S.-based, non-profit organization dedicated to the development, implementation and oversight of voluntary verifiable social accountability standards.

In 1996, SAI convened an international multi-stakeholder Advisory Board to develop Social Accountability 8000 (SA8000), a voluntary standard for workplaces based on ILO (International Labour Organization) and other human rights conventions.

Its independent verification method draws many key elements from the widely accepted quality management system certification in the ISO programs.

Dow Jones Sustainability Index

<http://www.sustainability-index.com/>

Launched in 1999, the Dow Jones Sustainability Index was the first global index tracking the financial performance of the leading sustainability-driven companies worldwide. Based on the cooperation of Dow Jones Indexes, STOXX Limited and SAM, Zurich they provide asset managers with benchmarked information to manage sustainability portfolios.

The DJSI family is based on a thorough sustainability assessment that covers economic, environmental and social criteria.

The research starts by defining sustainability trends which Sustainable Asset Management (SAM) sees as having a growing impact on the long-term success of companies. Based on this understanding of future economic, environmental and social developments, the analysts develop a set of general and industry-specific criteria to assess companies.

The analysed companies are assigned a sustainability score and are

FTSE4Good Index

The FTSE4Good global Index Series, originated in the UK and has been designed to measure the performance of companies that meet globally recognised corporate responsibility standards, and to facilitate investment in those companies.

Just introduced new climate change criteria.

The AuSSI

In February 2005, Sustainable Asset Management Australia (SAM Australia) launched the Australian SAM Sustainability Index (AuSSI).

To compile the AuSSI a 'corporate sustainability assessment' is conducted to measure and verify the corporate sustainability performance of the Australian companies. The corporate sustainability assessment process invites the largest listed companies in Australia to participate in the assessment. Around 40 to 50 Australian companies participated annually so far with the remaining companies (approximately 140) being assessed on their publicly available information.

RepuTex www.reputex.com.au

In general terms the RepuTex SRI Index operates in a similar manner and performs a similar function to the AuSSI.

Launched in August 2005, the RepuTex SRI Index measures the share market performance of a portfolio of the S&P/ASX300 Index companies listed on the Australian Stock Exchange that demonstrate a required minimum level of socially responsible performance and management of social risk.

The RepuTex assessment methodology covers four category areas: Corporate Governance, Environmental Impact, Social Impact and Workplace Practices.

At its launch, the RepuTex SRI Index comprised 44 companies with a market capitalisation of \$427 138 million as at 5 August 2005, representing 52 per cent of the market capitalisation of the S&P/ASX300 Index.

Corporate Responsibility Index in Australia

- The CR Index involves the same media partners which were originally involved in the much-criticised Reputex Index when it initially emerged.
- However, it is auspiced by an NGO, the St James Ethics Centre.
- The Corporate Social Responsibility Index (Australia) – is aimed at the top 250 BRW companies. The index had difficulties to develop momentum and its counterpart in the UK has not made real progress in recruiting more companies of late.
- In 2006 34 Australian companies participated, 6 withdrew and in 2007

Pro Voluntary Codes

- Companies are more likely to respect rules they themselves design;
- External regulation by governments is counterproductive and compliance procedures are expensive;
- Market forces will ensure companies adopt best practices with regard to human rights and other issues;
- It is premature to draft binding international rules as the area is relatively new and needs time to mature and spread;
- Legally binding codes could impose possible litigation;
- Sometimes penalties are so low, they are cheaper than implementing required changes;
- Companies will cease to cooperate with the UN and NGO initiatives;
- Legal norms, especially at the international level, are notoriously abstract and difficult to apply in practice to varied business operations; and in contrast
- Voluntary codes are highly flexible and adaptable to individual circumstances.

Pro legally binding....

- Voluntary initiatives might clash with other, more powerful commercial interest.
- It is not self-evident that human rights norms are ‘good for business’ and therefore make commercial sense.
- Voluntary codes are an ideal ‘testing ground’ for new regulation.
- History demonstrates that voluntarism alone has rarely caused states to respect human rights, human rights abuses during WWII gave the impetus for international human rights legislation.
- Voluntary codes rely on good intentions and create ‘free-rider’ phenomenon.
- The role of law is to balance power and obligations by establishing enforceable rights and corresponding duties. Large companies are beginning to challenge the dominance of governments, hence their power should be ‘regulated’.
- International law evolves slowly, it might take years of complex negotiations and there is a need now to build an international consensus around binding regulation.
- If a cause of action is deemed ‘illegal’ a deterrence is created.
- International standards create a level playing field.
- Replaces confusion with obligation and clarity.