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REVIEW OF THE COMPARABILITY AND RELEVANCE OF EXISTING INDICATORS ON CORPORATE SOCIAL RESPONSIBILITY*

Report by the UNCTAD secretariat on the Consultations on Social Indicators

Executive summary

At its twentieth session, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), within the framework of its mandate on promoting harmonization of best practices on corporate reporting, agreed to "begin examining existing indicators so that corporate social responsibility reports would be comparable and would not impose unreasonable burdens on enterprises in developing countries."

The present report provides an overview of major existing initiatives and regulations on corporate social responsibility (CSR) indicators and outlines the main issues raised by the examination of the comparability and relevance of these indicators. In particular, it discusses the question of whether the comparability and relevance of CSR indicators could be improved by focusing on a limited number of fundamental common indicators, or "core indicators". The report also discusses the scope of social reporting and the potential users of such reports, as well as possible criteria that could be applied in the selection of core indicators. These criteria are intended to support the comparability and relevance of the indicators, and include: materiality, universality, verifiability and confidentiality. The criteria also require that potential core indicators reflect the impact of corporations on society, are linked to sustainable development, and do not generate reporting or data gathering costs that outweigh the related benefits of CSR reporting.

The report is prepared by the UNCTAD secretariat in order to facilitate the ISAR deliberations in the area of social reporting. It reflects views expressed by an ad hoc group of experts during informal consultations held by the secretariat during the intersession period.

* The late submission of this document was caused by the secretariat's workload in the period following UNCTAD XI.

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INTRODUCTION

1. At the eleventh quadrennial conference of UNCTAD, in the São Paulo Consensus, member States recognized that the objective of UNCTAD's work in the area of policy response is "to assist developing countries, in particular LDCs, to design and implement active policies for building productive capacity and international competitiveness based on an integrated treatment of, *inter alia*, corporate responsibility, enterprise development and business facilitation (TD/410, para. 49). Since its eighteenth session, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has identified reporting on corporate social responsibility (CSR) as one of the emerging issues in the area of corporate transparency. Furthermore, at its twentieth session ISAR concluded that, while the pressure for better reporting on social issues is increasing and enterprises are producing more information, the satisfaction of stakeholders with the quality of social reports remains low. Furthermore, concern was expressed that the lack of comparability in social reports makes such reports less useful for stakeholders. It was also observed that the lack of satisfaction with social reporting is imposing a growing burden on enterprises as they try to respond to the increasing demands of various stakeholders.

2. As a result of these discussions, ISAR agreed to “begin examining existing indicators so that corporate social responsibility reports would be comparable and would not impose unreasonable burdens on enterprises in developing countries”. It was also agreed that the needs of small and medium-sized enterprises should be considered.

3. During the discussions on ISAR's work in the area of social reporting, it was suggested that the work should be done in collaboration with the business sector, organized labour, civil society organizations, intergovernmental agencies and other UN or UN-sponsored initiatives such as the UN Global Compact, as well as with organizations undertaking specialized work in the area of CSR indicators such as the Global Reporting Initiative (GRI).

4. Following the recommendations of ISAR at its twentieth session, the UNCTAD secretariat invited a number of distinguished experts in the field of CSR and corporate disclosure to participate in an informal Consultative Group of Experts (CGE). The secretariat's objective was to solicit their views on the comparability and relevance of existing social indicators. (The list of members of the CGE is provided in annex I).

5. The objective of this report is to further facilitate ISAR deliberations in the area of social reporting. It presents the secretariat’s findings on the main issues in the area of the comparability and relevance of social reporting, as well as the views of the CGE on these findings and other matters on CSR and social reporting. In particular, the report discusses possible criteria that could be used in selecting a limited number of comparable and relevant core social indicators.

6. The report builds on the report the secretariat prepared for the twentieth session of ISAR (TD/B/COM.2/ISAR/20), which discussed major issues of social reporting, and it is recommended that the two reports be read together.

7. Traditionally, issues of corporate responsibility include environmental concerns. In recent years, ISAR has addressed issues of environmental accounting and eco-efficiency indicators.[1] This work resulted in guidance for enterprises, regulators and standard-setting bodies on best practices in

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[1] R. Gray and J Bebbington. *Sustainable Development and Accounting: Incentives and Disincentives for the Adoption of Sustainability by transnational corporations*. UNCTAD, Geneva, 1995.

accounting and financial reporting for environmental costs and liabilities.[2] This was followed up with more detailed guidance on the estimation and use of eco-efficiency indicators.[3] In the present report, therefore, the secretariat focuses only on the social component of sustainability and CSR reporting.

I. OVERVIEW OF MAJOR EXISTING INITIATIVES AND REGULATIONS RELATING TO CORPORATE SOCIAL RESPONSIBILITY INDICATORS

A. Demand for, and challenges of, CSR reporting

8. Environmental and social scandals have raised the public's awareness of the fact that not all enterprises are willing or able to contribute positively to society's sustainability goals. CSR demands more accountability and transparency on the part of corporations. At the 1999 World Economic Forum meeting in Davos, UN Secretary-General Kofi Annan argued that economic globalization was at risk unless companies and other organs of society committed themselves to universal principles regarding human and labour rights, environmental protection and the rule of law. This commitment came to be embodied in the UN Global Compact. In the 2004 book *Raising the Bar*, Mr. Annan observed that, as more and more companies adopt the principles of the Compact, there is an increasing need for practical tools and information to give meaning to the universal principles the Compact represents.[4]

9. At the OECD, new corporate governance guidelines, such as the OECD Principles of Corporate Governance, recognize the necessity to inform not only investors but other stakeholders as well. Additionally, the 2000 update to the OECD's longstanding Guidelines for Multinational Enterprises include new sections regarding social and environmental issues. Within the European Union, a directive[5] was passed in 2003 which states that, to present a fair review of the development of the business in a manner consistent with the size and complexity of the business, reported information should not be restricted to the financial aspects of the enterprise. Rather, such information should also include environmental and social aspects.

10. The demand for social reporting comes in part from long-term investors such as pension funds, who demand information regarding intangible assets, risks and future prospects of enterprises. Demand also comes from stakeholders who are concerned about the accountability of enterprises, including Governments, civil society, trade unions and socially responsible investors. Stakeholders surveyed in the *Global Stakeholder Report 2003* by ECC Kothes Klewes GmbH, indicated that, among existing corporate reports, they have the lowest level of satisfaction with social reporting.[6]

11. One of the difficulties of social reporting seems to lie in the absence of a universally accepted reporting framework for sustainability reporting in general and for social reporting in particular. For financial reporting, such a framework has been developed by the International Accounting Standards Board (IASB). It sets out the concepts that underlie the preparation and presentation of general

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[2] UNCTAD, *Accounting and Financial Reporting for Environmental Costs and Liabilities*, 1999, United Nations, New York and Geneva.

[3] UNCTAD, *A Manual for the Preparers and Users of Eco-efficiency Indicators*, 2004, United Nations, New York and Geneva.

[4] Fussler, C., A. Carmer and S. van der Vegt (2004). *Raising the Bar: Creating Value with the United Nations Global Compact*, Greenleaf Publishing, p. 4.

[5] Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003, on the annual and consolidated accounts of certain types of enterprises, banks and other financial institutions and insurance undertakings.

[6] *Global Stakeholder report 2003*, ECC Kothes Klewes GmbH, shows the following satisfaction among stakeholders with main issues covered: environmental 74,4%, economic 57,6%, social 48,7%.

purpose financial statements for external users, i.e. financial statements that are directed towards the common information needs of a wide range of users who rely on financial statements as their major source of financial information. Revised standards of the IASB (International Financial Reporting Standards – IFRS) that deal with the presentation of financial statements also provide illustrative formats of financial statements to guide on the application of related IFRS.

12. It is debatable as to whether accounting criteria should be used in defining the content of a social report. Some CGE participants argued that accounting criteria are insufficient in the case of social reporting because of the greater intangibility of social issues compared to financial and environmental ones. They felt a need for an alternative way of reporting on social issues because of the impossibility of measuring and quantifying all aspects of social impact. On the other hand, other participants argued that accounting criteria can be reinterpreted to fit social reporting, viewing social reports from the point of view of society and not that of investors.

13. Some guidance for applying accounting techniques to new areas has already been provided in the area of environmental reporting, but it is still lacking as far as social reporting is concerned. As a result, enterprises are left to their own devices to devise the format and content of such reports. Some pioneering enterprises are developing exemplary reports. However, many social reports are descriptive in nature and are about whether enterprises understand the issues, rather than quantitative accounting of the results of their policies. Few reports include performance indicators on social issues that can be tracked over time or form the basis of comparison between firms or sectors.

14. In addition, many reports are selective and partial, and review only some of the elements of social performance. The information disclosed is often aggregated to the level of the corporation as a whole, which while being helpful in some ways, reveals little about the impact of operations in specific locations or host countries. As a result, stakeholders may not have an accurate and complete view of a company's activities.

15. In recognition of such issues, a number of stakeholder and business groups have undertaken initiatives to improve CSR reporting. They have developed lists of environmental, economic and social indicators and devised guidelines on how to construct a sustainability report. An overview of some of these initiatives is provided below.

B. Governmental guidelines on sustainability reporting

16. A number of Governments, such as that of the Netherlands and Denmark, have devised guidelines on sustainability reporting, which make recommendations as to the format and content of reports. They give, *inter alia*, examples of the social issues that need to be covered, although they do not detail the indicators to be used. For example, in September 2003 the Dutch Advisory Board for Annual Reporting issued a special guideline for sustainability reporting (*Richtlijn 400 'Jaarverslag'*, or Directive 400 for Annual Reports). The guideline acknowledges that sustainability reporting is still in its infancy but provides the preparers of reports with recommendations as to which issues to take into account.

17. A French law established in July 1977 (law N° 77-769) requires all companies with over three hundred employees to publish annually a "*bilan social*", a collection of statistical data on the company's social performance over the previous three years. It includes information on employment, remuneration, health and safety, working conditions, training, labour relations and the living conditions of employees and their families. The December 1977 decree N° 77-1354 specifies the

[7] International Financial Reporting Standards, 2004, IASCF, London, UK

measures to be used in the report. After a review and comments by trade union representatives and the company's work council, the *bilan social* is made available to all employees, labour inspectors and shareholders.

18. Since 2002, Article L225-102-1 of the French Code of Commerce requires listed companies to report on the manner in which they take into account the environmental and social consequences of their activities. Companies with foreign affiliates have to report on how they ensure respect for International Labour Organisation (ILO) conventions by their subcontractors and subsidiaries. The detail of the information on social impact to be provided is listed in Article 148-2 of the decree N° 67-236. Information on environmental impact is listed in the Article 148-3.

19. A Belgian law (Article 47) established in December 1995 requires companies in Belgium with more than 20 employees to include in their annual accounts a *bilan social* including detailed information on employment, fluctuations of the workforce, measures in favour of employment taken by the company, and organized training. Some companies that are not required to publish annual reports are still required to produce a *bilan social*.

C. Civil society initiatives

20. The Global Reporting Initiative (GRI) is a multi-stakeholder initiative started in 1997 by the Coalition for Environmentally Responsible Economies (CERES). It became independent in 2002 and now works in collaboration with the United Nations Environment Programme (UNEP) and the UN Global Compact. GRI's mission is to develop and disseminate its Sustainability Reporting Guidelines.

21. The GRI guidelines contain reporting principles to be followed by preparers; the guidelines specify report content and suggest reporting indicators, including 50 core environmental, social and economic indicators and 47 additional ones. The core indicators are considered to be those "relevant to most reporting organizations and of interest to most stakeholders."[8] The GRI guidelines do not elaborate on how core indicators are distinguished from others, and warn that some core indicators might not be relevant to all report users or preparers.

22. The large number of GRI indicators can be explained by the GRI's laudable effort to be as inclusive as possible in its deliberations. Any interested and committed party had the possibility to participate in the development of the guidelines. To date, 19 of the 402 companies that refer to the GRI in social reports are considered "in accordance" with the guidelines. Other "GRI reporters" are those who mention the GRI initiative in their reports and choose to use only some of the indicators; this undermines the comparability of these reports.

23. Business In The Community (BITC) is a non-profit organization based in the United Kingdom with about 700 members, including 75 of the FTSE 100 enterprises. BITC's Corporate Impact Reporting project recommends 44 indicators to measure an enterprise's impact on society. The

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[8] Global Reporting Initiative, *Sustainability Reporting Guidelines*, 2002.

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

indicators are subdivided into subsets related to the market place, environment, workplace, community and human rights.

24. The indicators used in the Corporate Impact Reporting framework offer progression over three levels: Level 1, for companies just beginning to measure progress, requires mostly baseline data; Level 2, for companies wishing to move beyond a basic commitment, requires some performance and impact data; and Level 3, for companies aiming at further improvement of their performance, requires qualitative as well as quantitative information.

25. A framework to measure and report on responsible business practices accompanies these indicators. BITC stresses that this reporting methodology provides a picture of enterprises' CSR activities and performances, but does not allow for comparison. Some of its core indicators are seen as being too sector-specific. To date, 18 UK-based enterprises have participated in this initiative.[10]

D. Corporate practices

26. Surveys of report preparers carried out by major accounting companies and consultancies[11] show that although health, safety and environmental (HSE) reporting is still the most prominent type of non-financial reporting among the Global Fortune Top 250 (GFT250) companies (73%), other types of reports are emerging, including triple bottom line reports (14%), combined environmental and social reports (10%), and social and combined social and financial reports (3%). The Top 100 survey mirrors this trend, showing that companies are increasingly incorporating social and economic issues into their HSE reports.[12]

27. The content of these reports is generally analysed in terms of economic, environmental and social issues. Environmental issues include the impact of production processes, products and services on air, land, biodiversity, and human health. Economic performance reporting spans wages and benefits, productivity, job creation, outsourcing expenditures, R&D investments, and investments in training and other forms of human capital.[13] Social issues typically include traditional reporting topics such as workplace health and safety, employee satisfaction and corporate philanthropy, as well as other topics such as labour and human rights, diversity of the workforce, and supplier relations. Table 1 shows that traditional reporting topics still rate higher than the newer topics.

28. All surveys share the view that the content and quality of sustainability reports are not consistent. The number of and quality of environmental reports is generally higher than reports on economic and social issues, largely due to a number of recognized environmental metrics, for example ISAR's eco-efficiency indicators. Social disclosure often has an internal focus, with a smaller number of reports covering local community and wider social issues.

29. PricewaterhouseCooper's (PwC's) survey of 140 large US companies shows that companies are struggling to define what sustainability means to their business and to translate sustainability into metrics. Overall, the ability to develop and use concrete metrics to show progress over time is significantly lower in the areas of social performance than in economic performance.

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[10] Thames Water, Coca-Cola Great Britain, Nestle, Flag, HBOS, Sainsbury's, GUS, Severn Trent, United Utilities, Marks & Spencer, CIS, Powergen, BAA, Jaguar Cars, BUPA, Zurich Financial Services, Carillion, Orange, EDF Energy.
[11] A number of assessments of social reports have been carried out by KPMG, UNEP/SustainAbility, ACCA, PricewaterhouseCoopers and others.
[12] KPMG, *International Survey of Corporate Sustainability Reporting*, 2002.
[13] PricewaterhouseCoopers, *Management Barometer Survey*, September 2002.

Table 1. Social topics addressed in GFT250 reports

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

Source: KPMG, *2002 International Survey of Corporate Sustainability Reporting.*

30. Companies have started developing social indicators in order to be able to measure their social performance. Table 2 ranks the top five such indicators used by the GFT250. For those social issues for which it is more difficult to set a metric, the reporting remains qualitative.[14]

Table 2. Top five social performance indicators

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

Source: KPMG, *2002 International Survey of Corporate Sustainability Reporting*

These top five indicators, however, may not fully meet stakeholder expectations. A recent survey of a broad range of stakeholders (the *Global Stakeholders Report 2003* by ECC Kothes Klewes GmbH) revealed that a significant percentage of those surveyed expect to find the following issues covered in social reports: human rights (62.8%), health and safety (57.6%), business ethics (56.5%), standards in developing countries (55.4%), management of social issues (49.1%), bribery and corruption (49%), social policy statements or guidelines (47.5%), equal opportunities (45.9%), supply chain standards for social issues (45.5%), consumer protection/product labeling (44.6%), education and training

[14] PricewaterhouseCoopers, *Sustainability Survey Report*, 2002.

(43.6%), freedom of association/workers rights (42.3%), community relations (40.1%), and corporate citizenship (31.0%).

II. MAIN ISSUES RAISED BY THE EXAMINATION OF COMPARABILITY AND RELEVANCE OF EXISTING SOCIAL INDICATORS

31. The secretariat examined a total of some 350 existing social indicators. With regard to their comparability, the secretariat prepared a list of possible criteria that could be used to improve comparability of social indicators proposed by major initiatives on social reporting.

32. The criteria were discussed at the CGE meeting in March 2004, and the results of those discussions and of further exchanges via e-mail and telecom are presented below.

A. Scope of social reporting

33. The CGE raised a number of issues regarding the context and scope of social reporting. The CGE agreed that information on sustainability should be classified as economic, environmental and social, but recognized that there was nevertheless a lack of consensus on how sustainability should be addressed in the context of social reporting. The CGE also debated whether this work should focus on reporting how corporations manage their social responsibilities, or on the social impact of corporations. These topics are interrelated, but focusing on one or the other would bring different results. A report on how corporations manage their social responsibilities would include policies, management systems and monitoring systems and their results pertaining to environmental, economic and social issues. A report on the social impact of corporations would focus in particular on social issues, and would include information on the impact of a company's activities, rather than its policies and management systems.

34. Some members stressed that social issues are often inextricably interwoven with political issues and therefore cannot simply be resolved by means of a technical solution.

B. Users of social reporting

35. The CGE addressed the issue of who would be the potential user of a social report. It generally felt that, in principle, social information should be disclosed for the benefit of all stakeholders. Stakeholders were understood as groups of persons that are affected by and/or can influence an enterprise, without necessarily holding an equity share of the enterprise. In the case of a social report, the users include, *inter alia*, investors, shareholders, customers, employees, trade unions, suppliers, the local community and policy makers. Their actions can affect an enterprise's brand image, its financial performance, and even its license to operate. For example, some institutional investors are conscious of the potential for reputation risk and demand that enterprises manage these risks. Other groups of stakeholders can make decisions that have an impact on the value of an enterprise (for example, suppliers, customers, and trade unions).

36. This debate brought out two different perspectives. Some members of the CGE held an "accountability" perspective wherein social reports should address all issues of accountability, regardless of which stakeholder might use the information. Others held a "stakeholder" perspective wherein social reports should address issues raised through dialogue between enterprises and their stakeholders.

37. The stakeholder perspective sees social reports as a compilation of the information required by all stakeholders. This is currently a popular approach to corporate reports and reporting initiatives.

38. There are, however, downsides to the stakeholder approach. One lies in the identification of the stakeholders themselves. Identifying and conducting a dialogue with an enterprise's stakeholders is not a simple matter. The number of stakeholders a TNC has is potentially enormous. Thus dialogue is often carried out with representative interest groups. However, the legitimacy of some interest groups is sometimes questioned. Some NGOs, for example, may be financed by large businesses or religious or other groups with a separate agenda to that of the stakeholders the NGO purports to represent. Another downside to the stakeholder approach is that there may be a tendency among enterprises to restrict the dialogue to those stakeholders that can impact the enterprise. This leaves out weaker stakeholder groups whose well-being may be affected by the enterprise. A further downside to this approach is that enterprises can find it close to impossible to identify and fulfil the different information requests of all their stakeholders. In the absence of a consensus, report preparers disclose information on a selection of issues that they see as related to the enterprise's responsibilities. There is sometimes a gap, however, between the management's perception of what their enterprise's responsibilities are and civil society's expectations. As a result, major issues related to the enterprise's impact on society may be left out in social reporting.

39. It was argued that the accountability perspective addresses the weaknesses raised by the stakeholder perspective. Since corporate responsibilities are often, though not exhaustively, described in existing regulations, codes, etc., the dialogue between one particular enterprise and its stakeholders becomes largely unnecessary to their identification. Dialogues have already been held in defining responsibilities in laws, regulations and international agreements (e.g. the ILO Tripartite Declaration).

C. Criteria that may facilitate the development of comparable and relevant social indicators

40. Based on existing concepts of corporate reporting, the CGE discussed the following criteria for possible selection of social indicators.

Materiality

41. Material information is defined by the International Accounting Standards Board as "information whose omission or misstatement could influence the economic decisions taken by users of information". This definition is also used in the Organization for Economic Cooperation and Development (OECD) Principles of Corporate Governance. In the new draft UK Company Law, material factors are defined as "matters including [the company's] employees, suppliers, customers as well as the impact of its operations on the community and on the environment."

42. Existing guidance relating to the concept of materiality in the financial reporting framework states that materiality must be determined in good faith by the enterprise's directors. For example, in the United Kingdom, the Operating and Financial Review Working Group on Materiality (OFRWGM) has recently attempted to give a definition of materiality in the context of non-financial reporting.[15] The Operating and Financial Review (OFR), which is part of the new draft Company

[15] The OFRWGM proposes the following definition: 'In making their good faith, honest judgements about what information is material and should be included in their OFR, directors should be governed by the high level objective of the OFR, which is to enable users to assess the strategies adopted by the business and the potential for successfully achieving them. Information will be material to the OFR if failure to disclose it clearly, fairly and unambiguously might reasonably be expected to influence members' assessments of the company and hence the decisions they may take, either directly or indirectly as a result of the significance that the information has for other stakeholders and thus the company. Information that is material to the OFR may be quantitative or qualitative; and may relate to facts or probabilities, and to past, present or future events and decisions.'

Law, would require companies to report on several CSR issues to the extent that these issues are in good faith considered material by the company's directors.[16]

43. Most sustainability reporting guidelines indicate that an enterprise must establish a dialogue with its stakeholders in order to determine what information is material to them. This stakeholder approach, however, raises the issues mentioned above. Stakeholder consultation as a means of determining materiality is not only potentially costly but does not ensure correct, complete or comparable results. Furthermore, many stakeholders challenge the idea that materiality be limited to a link to economic decisions, as this might exclude equally important social decisions.

44. Stakeholders also argue that their best interest cannot be left to corporations to determine. In their view, the enterprise’s and stakeholders’ interests do not necessarily coincide, and identifying information that is material to stakeholders is beyond the capabilities of the enterprise director alone and needs to be done in cooperation with stakeholders.

45. Currently, a common method to determine materiality is to consider all disclosure demands formulated by stakeholders. Some stakeholders have produced lists of indicators they consider material, and the GRI is probably the most successful attempt to gather commonly required information. However, the quantity of such information might be unmanageable for a large proportion of enterprises. This suggests that a more limited selection may need to be made in order to achieve wide uptake and comparability. The main challenge is to assess whether there are indicators that are material to all or most stakeholder groups, rather than what is material to each of these groups.

46. During discussions of the CGE, it was suggested that ISAR could use a definition of materiality that would be limited to the impact of corporations on the development of countries. However, other members of the CGE argued that, while promoting development is a key component of CSR, CSR is not limited to promoting development.

47. Some experts expressed doubts about the ability to identify issues that would be material to all stakeholder groups. Other experts noted, however, that if indicators are based on universal values and universal values are by definition taken to be material, then identifying issues that are material to all stakeholders should be achievable.

Universality

48. Universality was another criterion suggested by the secretariat at the meeting of the CGE. The secretariat’s initial view was that the identification of core indicators should be such that the indicators would apply to all enterprises, regardless of sector, size or location, the intention being to maximize the comparability of social indicators.

49. There seems to be friction between the concepts of universality and materiality. The Consultative Group felt that by selecting indicators that are universally applicable, social reports risk

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[16] The two relevant sections of the OFR read as follows: section (v) An account of the company’s key relationships, with employees, customers, suppliers and others, on which its success depends: including employment policies and practices (including disability and non-discrimination policies); policies and practices on employee involvement and compliance with international labour conventions and anti-discrimination laws; policies and practices on creditor payment; section (vi) Policies and performance on environmental, community, social, ethical and reputational issues including compliance with relevant laws and regulations: including any social or community programmes, policies for the business on ethical and environmental issues and their impact for the business, policies on international trade and human rights issues and any political and charitable contributions.

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being too general to allow the right level of assessment of an enterprise's social performance. Indeed, a complete assessment of an enterprise's performance needs to be done through indicators specific to its type of business and the context in which it operates. Investors in particular are interested in sector-specific indicators, which make it possible to compare similar enterprises in order to identify better performers. In that sense, comparability can be opposed to materiality, i.e. sector-specific statistics, while material, are not universal and so not comparable across sectors.

50. Some members of the CGE stressed that, if universal values guide the selection of indicators, then in practice there may not be significant conflict between materiality and universality.

51. The CGE generally felt that, where comparability conflicts with materiality, precedence should be given to materiality. The indicators should be valued from the point of view of assessing impact on society rather than from the point of view of their ability to be compared or verified.

Impact oriented rather than process oriented

52. As mentioned above, current CSR reports are often process-oriented rather than outcome- or impact-oriented. The CGE felt that the social impact of business operations cannot be assessed solely on the basis of the policies and processes of enterprises regarding social responsibility.

53. The CGE generally felt that a social report's indicators should reflect the actual social performance of the enterprise and the extent to which it ensures that the rights of all stakeholders are respected. For reporting purposes, these indicators would have to be reported in the appropriate context, such as information on related policies, management systems, and past performance. It would also be helpful to make use of targets, both for measuring past performance relative to past targets and for providing forecasts of future performance.

Costs and benefits of social reports

54. The objective of the work carried out by the secretariat on social reporting includes ensuring that an unreasonable burden is not imposed on enterprises, particularly those in developing countries. It may be noted that the same principle applies in financial reporting: the costs incurred in preparing corporate social reports should not exceed the benefits derived from them.

55. In the case of social reporting, members of the CGE recognized that the issue of costs/benefits is not a simple one. Some members of the CGE observed that one of the challenges in this area is that the costs are borne by preparers, but most of the benefits seem to be for the users. Other members of the CGE argued that, while the costs of social disclosure are borne by the report preparers, the preparers can also derive benefits from it.

56. Members of the CGE felt, however, that in any case, precisely quantifying the benefits of social reporting and comparing them to the costs is difficult, if not impossible.

57. It was observed in the CGE's discussion that, whereas both the enterprise and its investors have an interest in minimizing costs to the enterprise, other stakeholders do not necessarily share the same level of concern about costs incurred by the enterprise. Some CGE members took the view that the varying degrees of concern expressed by the enterprise and its stakeholders over the issue of the cost of social reporting may be related to the relative value each viewpoint assigns to social reporting.

58. The CGE also recognized that one way of minimizing the cost of gathering and reporting information on the social impact of an enterprise is to make use of relevant and comparable data that

enterprises already gather in their regular course of business. For example, International Accounting Standard 19 (IAS 19) prescribes accounting and disclosure for employee benefits. The scope of the Standard covers: wages and salaries; compensated absences (paid vacation and sick leave); profit sharing plans; bonuses; medical and life insurance benefits during employment; housing benefits; free or subsidized goods or services given to employees; pension benefits; post-employment medical and life insurance benefits; long-service or sabbatical leave; 'jubilee' benefits; deferred compensation programmes; termination benefits; and equity compensation benefits.[17]

Potential for verification

59. The CGE generally felt that social indicators should be verifiable in order to maximize the credibility of a social report. It is therefore necessary that an audit trail exist.

60. Some CGE members observed that CSR reports are often accused of being mere public relations tools that present partial, unverified and/or unverifiable information. The CGE recognized that this ‘credibility gap’ is leading a growing number of enterprises to have their reports independently verified (29% and 27% for GFT250 and Top 100 enterprises respectively in 2002).[18] In the majority of cases, assurance reports are signed by one of the major audit firms (65% of cases in 2002).[19]

61. The CGE noted that, until recently, there had been no internationally accepted standards for providing assurance on corporate social responsibility reports. More recently, the Institute of Social and Ethical Accountability and its AA1000 series of standards have been gaining in international acceptance. The International Federation of Accountants also has issued guidance on providing assurance on non-financial information (ISEA 3000), and the European Federation of Accountants issued a discussion paper in 2002 on providing assurance on sustainability reports. The CGE noted, however, lack of consistency regarding the scope of the assurance engagement and verification methods. The CGE recognized that providing assurance on social data is still a significant challenge.

Confidentiality

62. The CGE recognized that confidentiality is an issue in social reporting and that there may be certain types of information that enterprises should not be expected to disclose. This should be considered in any development of social indicators.

63. In some cases, confidentiality can counteract materiality. For example, information on wages distributed to employees, in particular in comparison to local average wages and cost of living, would be invaluable for certain stakeholders. Enterprises may be reluctant to disclose this type of information due to concerns about their competitive position. Some members of the CGE argued that materiality should take precedence over confidentiality.

Link to sustainable development

64. The international community recognizes that TNCs play a crucial role in the social and economic development of a country. Several members of the CGE recognized that the current demand for more transparency in corporations' social impact is based on the perception that the current model of economic development cannot be sustained in the long term. Addressing this

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[17] *International Financial Reporting Standards, 2004*, IASCF, London, UK.
[18] KPMG, *International Survey of Corporate Sustainability Reporting, 2002*.
[19] Ibid.

perceived situation, a number of international organizations have listed norms or guidelines on how TNCs can contribute to sustainable development.[20]

65. As the notion of sustainable development is central to the idea of CSR, social indicators need to reflect how the enterprise contributes to sustainable development.

66. There were questions among CGE members as to whether community programmes and other philanthropic activities undertaken by enterprises should be considered "sustainable". Such activities can be greatly beneficial to local communities, but they are not directly linked to the enterprise's business activities and can be called off at any time.

D. Means of communication for social information

67. The CGE discussed whether social information should be disclosed in annual financial reports, separate sustainability reports, or both. It was stated that the trend towards sustainability reporting was increasing. The financial reporting framework is mainly concerned with events that increase or decrease the value of an enterprise's assets and liabilities. Because the impact of most social issues on the results of an enterprise is difficult to assess, they tend not to be included in financial reports. Another reason to separate social information from financial reports is the amount of information generally disclosed in sustainability reports, which justifies the production of a stand-alone report.

68. Members of the CGE also saw benefits from adding social information to the financial report. All agreed that any social information that is material to investors should be included in the financial report, as investors are its prime users. The question remains, however, for information that, while it pertains to corporate accountability, may not be obviously or directly related to corporate financial results. Some members felt that this type of information may be of less interest to investors, and therefore would not belong in a financial report. Others felt that, just as corporate governance details provide important, if indirect, insights into enterprise value, so information regarding the social dimension of the enterprise would also contribute to a more complete picture of enterprise value. Another benefit from the inclusion of social disclosure in financial reporting would be increased visibility of social issues, which would improve the management of such issues.

69. The question was also raised as to the communication channels used when reporting on sustainability issues and their availability to all stakeholders. Publication of information on the Internet ensures widespread diffusion of information, but some stakeholders may still be excluded (e.g. the "digital divide" issue). Customized media might be needed to pass on the information to certain stakeholders, e.g. local communities without access to the Internet.

70. The CGE was of the view that the issue of the reporting unit should be discussed in order to determine the smallest reporting unit: the parent enterprise and/or its subsidiaries. Currently the information in many social reports is aggregated to the point that it can be meaningless for certain types of analysis.

[20] They include the International Labour Organization's conventions, the United Nations High Commissioner for Human Rights Office's New Human Rights Norms, the United Nations Centre on Transnational Corporations' Code of Conduct on Transnational Corporations, the Organisation for Economic Co-operation and Development's Guidelines for Multinational Corporations, and the United Nations Global Compact.

E. Potential indicators for further consideration

71. The pool of existing indicators from which the secretariat carried out its preliminary selection included indicators used in national authorities' disclosure requirements (e.g. France and Belgium), multi-stakeholder initiatives (e.g. GRI and BITC) and corporate sustainability reports. The pool of existing indicators reviewed was considered by the secretariat to be representative, but by no means exhaustive, and further research could be carried out to establish a complete catalogue of indicators developed worldwide, should ISAR wish to pursue this.

72. It was noted by the secretariat that the suggested selected indicators were only intended to facilitate discussion within the CGE and to assess and illustrate how the suggested criteria could be applied to screening existing indicators. The list of indicators suggested to the CGE for discussion can be found in annex II.

73. Although it was agreed that more deliberations are needed on the framework of social reporting and the related criteria before advancing to the discussion of specific indicators, the CGE debated a number of issues related to indicators as such.

74. Members of the CGE, recognizing the complexity of defining the content of and producing a social report, suggested an incremental approach. Indicators should first address issues that the enterprise has control over and for which it already gathers information as part of its management system. This would concern, for example, workforce profile and turnover, employee remuneration (wages, pensions and other benefits), and health and safety issues. Once a satisfying reporting model on these issues is achieved, other social issues could be added for which data gathering and interpretation are more complex and over which the enterprise has no direct control but may be able to influence. Such issues could, for example, include human rights and corruption.

75. In particular, the CGE generally felt that issues such as workforce profile and turnover, employee remuneration (wages, pensions and other benefits), and health and safety are compulsory for a satisfying social report. On the other issues proposed, such as geographical spending, the supply chain and cases of non-compliance with regulations, opinions in the CGE varied. Although some CGE members saw value in each of them, in-depth work would be needed to ensure that the indicators used fall within the scope of the enterprise's accountability and are an accurate reflection of performance rather than a set of data. The point was made that information on taxation would also be useful as one of indicators of social reporting.

76. The CGE also recommended that ISAR give guidance not only on which indicators to use, but also on how to compute, report and benchmark them.

III. SPECIFIC ISSUES OF SOCIAL REPORTING BY SMALL AND MEDIUM-SIZE ENTERPRISES

77. Small and medium-size enterprises (SMEs) may benefit from producing social reports. Although the discussion on the boundaries of TNCs' accountability has not yet reached a consensus, large enterprises are under increasing pressure to be aware and in control of the environmental and social performance of their supply chain. Being able to manage and report on its policies and performance can give a small enterprise a competitive advantage over other local enterprises. The CGE agreed, however, that producing social reports should have only marginal additional cost for SMEs, particularly those based in developing countries.

78. The CGE suggested that the indicators chosen for transnational corporations should be adapted to the capacities of small enterprises, possibly through a limited set of selected indicators. The choice of these indicators could be based on the information that TNCs already require from their suppliers. An easy way of keeping costs of reporting down would be to require from SMEs only the information they already gather in the normal course of business.

79. One member of the CGE noted that SMEs account for a large part of the global supply chain and that they can be seen as users of reports as well as report preparers. Certain social information can be of value to SMEs and inform their decision to enter a particular supply chain. The CGE suggested that the secretariat examine the type of information that would be useful for SMEs as report users.

IV. CONCLUSION

80. The paper presents the results of UNCTAD's review of major existing initiatives on social indicators and the main issues raised by informal consultations with a number of distinguished experts in the area of corporate responsibility and social reporting. The results of this work suggest that further deliberations would be useful to explore the issue of harmonization of social reporting with a view to improve the comparability of social reports without imposing an additional reporting burden on enterprises.

81. The report highlights points raised during consultations regarding the scope of social reporting and the users of such reports. In particular it raises the question of whether common needs of different stakeholder groups could be identified so that harmonized reports that would contain a limited number of indicators might be useful to all such stakeholders. It also outlines a number of issues that could be further discussed regarding the criteria that could be used to improve the comparability of social reporting. ISAR may wish to further explore these and other issues to assess the feasibility of eventually producing a short list of core social indicators based on existing initiatives.

Annex I

MEMBERS OF THE INFORMAL CONSULTATIVE GROUP OF EXPERTS (CGE)

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Robert Garnett, Board Member, International Accounting Standards Board, United Kingdom

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Peter Utting, Deputy Director, United Nations Research Institute for Social Development, Switzerland

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Annex II

INDICATORS SUGGESTED FOR DISCUSSION AT THE CGE MEETING

A. Workforce profile

Breakdown by country of:

- Number of employees by gender and level of responsibility
- Number of employees by nationality and level of responsibility
- Number of employees by age
- Number of employees with disability
- Number of employees by type of contract
- Number of employees internal and outsourced

B. Workforce turnover

Breakdown by country of:

- Number of employees hired by status (full/part time), type of contract (permanent/temporary), gender, and education level
- Number of employees separated by status, type of contract, gender, and education level

C. Training

Breakdown by country of:

- Average hours of training per year per employee by category of employee

D. Employee representation

Breakdown by country of:

- Percentage of employees covered by collective bargaining agreements
- Percentage of employees represented by independent representative

E. Organization of working hours

Breakdown by country of:

- Weekly working hours
- Average number of annual leave days
- Overtime

F. Health and safety

Breakdown by country of:

- Number of occupational fatal accidents, including subcontractors, and cause
- Number of occupational non-fatal accidents, including subcontractors, and cause
- Number of occupational illnesses, including subcontractors, and cause
- Number of legal non-compliances on health and safety of workers and customers

G. Geographical spending

Breakdown by country of:

- Amount spent on goods and services inside the country - international contractors and suppliers
- Amount spent on goods and services inside the country - local contractors and suppliers

H. Supply chain

Breakdown by country of:

- Average time to pay bills to suppliers
- Number of contracts cancelled and joint ventures divested due to incompatibility with business principles
- Proportion of suppliers and partners screened for human rights compliance

I. Cases of non-compliance with regulations

Legal action taken against company concerning:

- Anti-union practices
- Discrimination
- Non-compliances with domestic human rights legislation
- Anti-competitive behaviour
- Late payment of bills
- Breaches of consumer privacy
- Breaches of advertising and marketing regulations
- Non-compliance with regulations concerning product information and labelling
- Breaches of anti-trust and monopoly regulations
- Cases of corrupt or unprofessional behaviour