How to Read a Corporate Social Responsibility Report

A user’s guide

Institute for Responsible Investment

BOSTON COLLEGE
CARROLL SCHOOL OF MANAGEMENT
Center for Corporate Citizenship
Whatever name they go by, corporate social responsibility reports are attempting to serve one essential purpose: they portray the relationship between a corporation and society. They seek to improve communications between the corporate world and the broader society within which companies report.
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Executive summary

“How to Read a Corporate Social Responsibility Report: A User’s Guide” is intended to help those approaching corporate social responsibility (CSR) reporting for the first time, as well as those wishing to generally deepen their understanding of the elements that make up a thorough CSR report. CSR reports are increasingly used by corporations to communicate with investors, employees, consumers and the general public on their social and environmental initiatives. CSR reports can be confusing to readers, in part because of their length and the volume and variety of information included, and in part because it is often difficult to distinguish the information they contain that is valuable from what is not.

This guide will help readers, whatever their interests or experience, to identify quickly and easily the most valuable parts of these reports. Its focus is on CSR reporting as practiced by North American companies, but it is applicable to CSR reporting more generally as well.

Chapter One notes the dramatic increase in the number of companies preparing CSR reports worldwide. In 2008, CorporateRegister.com tracked more than 3,100 CSR reports, with some 500 of those being “first-time” reports that year. National governments and stock exchanges are increasingly requiring corporations to report publicly on their CSR initiatives. Brazil, Denmark, France, Malaysia, the Netherlands, South Africa and Sweden are among countries taking strong steps in this direction in recent years.

CSR reporting is an increasingly worldwide phenomenon and is likely to become mandatory in coming years.

Chapter Two points out that CSR reports can be read for many different purposes.
• Investors can read them for data material to companies’ stock price and long-term business prospects
• Those seeking improvements in corporations’ social and environmental records can identify key areas of concern or models of best practice
• Employees, current or prospective, can determine which companies have the best or safest work environments
• Corporate managers can benchmark their progress against their own internal goals and the records of their peers
• Customers can identify companies with positive social and environmental records
• Academics and other researchers can extract data on current and past performance
• The information in CSR reports is of interest to a variety of users beyond the financial community

Chapter Three examines the primary characteristics of a thorough CSR report. In general, these reports:
• Go beyond documenting community relations activities
• Provide details on both policies and actual practices
• Report data that is company-wide and systematic, accompanied by illustrative anecdotes
• Set goals for future social and environmental performance
• Confront failures as well as promote successes
• Address the most difficult issues a company faces, particularly those relating to business models
• Integrate CSR reporting with financial reporting and analyze the materiality of CSR issues to daily operations
• Readers will find a CSR report credible when it discusses thoroughly and honestly those issues that most deeply impact a company’s business model and its implications for a just society and sustainable environment today and tomorrow

Chapter Four examines the specific features of thorough CSR reporting, including:
• Introductory letters from chief executive officers and/or those responsible for CSR are opportunities to demonstrate commitment to CSR from the top
• Mission and values statements provide a framework against which policies and practices can be assessed
• Key facts and figures show where a company is concentrating its most important CSR efforts and how much progress it is making
• Graphs and tables compare a company’s progress in meeting goals over time and in comparison with peers
• GRI indexes identify which key social and environmental data points, as identified by the Global Reporting Initiative, are included and where to find them
• Letters of assurance or CSR auditors’ statements provide confidence that companies’ reporting processes are reliable
• Interviews and surveys from stakeholders provide input from independent third parties on the strengths and weaknesses of particular reports

These are the tools that companies’ have available to them to tell their CSR story. The best CSR reports communicate effectively to readers when these tools are used well.

Chapter Five identifies for each major stakeholder groups the most important CSR issues on which companies report and which data points are most valuable. The stakeholders and issues examined include:

• Investors
  • Business model: Integrating CSR into business strategy, product development
  • Corporate governance: Board-level oversight of CSR considerations and stakeholder relations
  • Ethics: Maintenance of a corporate culture of honesty and transparency

• Environment
  • Energy efficiency and climate change: Reductions in energy consumption and use of fossil fuels
  • Wastes and toxic emissions: Systematic programs to reduce use of toxic chemicals in manufacturing and of wastes sent to landfills
  • Life cycle design: Consideration of environmental implications of products from cradle to grave
  • Industry-specific concerns: Identification of key environmental issues particular to a company’s industry
  • Other key environmental issues: Water, clean-up liabilities, fines and spills, green procurement policies

• Employees
  • Health and safety: Goal of zero fatalities and injuries
  • Union relations: Respect for union rights and the conventions of the International Labor Organization
  • Wages, profit sharing and benefits: Provision of a living wage, adequate benefits, and profit sharing or employee ownership
Readers need not expect companies will address all these issues. Indeed, too much data given the same weight can be as confusing in its detail as too little data without specifics. Readers will find the best CSR reports focus intensely on the most important of issues, while providing baseline data on the rest.

### Chapter Six

surveys various programs that acknowledge achievements in CSR initiatives. These include:

- Certification to social and environmental standards such as ISO 9000 and ISO 14000, forestry practices certification schemes, and social and environmental labels for food or labor practices
- Inclusion on SRI indexes such as those maintained by Dow Jones, FTSE, and KLD Research & Analytics; and “best” company lists such as those of best employers
- Corporate endorsement of various industry codes of conduct, such as the Kimberley Process for conflict diamonds or the Roundtable on Sustainable Palm Oil; and international codes of conducts such as the United Nations Global Compact

Readers should understand not all programs are equally impressive and should develop a context for evaluating them.

### Chapter Seven

looks at standards for assessing best practices for CSR reporting as maintained by:

- Three CSR reporting standard-setting and consulting firms – AccountAbility, Global Reporting Initiative and SustainAbility
- Two agencies that give annual awards for best CSR reports – ACCA-CERES and CorporateRegister.com

These standards and awards criteria can help readers gain a familiarity with best practices in CSR reporting.
Chapter One

What is CSR reporting, who does it and why is it important?

What a CSR report is
Although corporate social responsibility (CSR) reports are published by thousands of corporations today, a single, agreed-upon definition of what exactly constitutes CSR reporting remains elusive. They go by many names: sustainability reports, environmental, health and safety reports, and community affairs reports, among others. CorporateRegister.com breaks them down into nine separate categories.² For the sake of simplicity here, they are simply referred to as corporate social responsibility reports.

Whatever name they go by, all are attempting to serve one essential purpose: they portray the relationship between a corporation and society. They seek to improve communications between the corporate world and the broader society within which companies report. They are what the U.K. consulting group SustainAbility calls “an accounting to society.”

CSR reports go beyond the financial facts and figures of interest to investors to describe a company’s relations with the full range of its stakeholders: employees, customers, communities, suppliers, governments and the environment.

²The nine categories are: Social/Community; Philanthropy; Integrated (Annual Financial and Non-Financial); Sustainability (Environmental/Social/Economic); Corporate Responsibility (EHS/Community/Social); Environment, Health and Safety and Community; Environment, Health and Safety; Environment and Social; and Environment.

These reports come in various shapes and forms. Some are no more than a few paragraphs in a company’s annual financial reports. Others are stand-alone reports that can run 100 pages or more. Still others appear on company web sites. For some firms, CSR reporting is about following the comprehensive guidelines laid down by the Global Reporting Initiative. For others, it is about telling a single story or two – for example, their relations with overseas vendors, their development of alternative energy products, or their progress on climate change.

Some CSR reports are short on substance. Others bury the reader in detail. Some are simple exercises in public relations, others confront head on the greatest challenges that a company faces. It is still the exceptional report that provides a well-rounded and balanced portrait of the key issues across the full spectrum of CSR concerns.

It may be difficult at first glance to see the same principle at work in a 50-100 page CSR report from a high-tech firm – with its detailed examination of product life-cycle, worker safety and environmental initiatives – and two paragraphs on charitable contributions and volunteer programs included in the annual report of a regional bank. Whatever the form and content, however, they are all part of the same effort to extend the definition of a corporation’s obligations beyond
the simple generation of profits for investors to the true enrichment of the full range of a corporation’s stakeholders.

**Who does CSR reporting**

As recently as 1990, only a few dozen companies made the effort to report on their relationship with stakeholders and society. Since that time, the number of CSR reports has skyrocketed, growing from 26 in 1992 to more than 3,000 in 2008, according to CorporateRegister.com.

The world’s largest companies now issue CSR reports as a matter of course. In the United Kingdom, for example, some 86 percent of the FSTE 100 corporations issued CSR reports in 2007. French law requires all large firms listed on the Paris stock exchange to integrate CSR data into their financial reports. The governments of emerging markets such as Malaysia and South Africa see CSR as a competitive advantage and encourage companies to participate. All of the 10 largest South African corporations, for example, included a CSR report in their 2007 annual reports to stockowners.

In industries with direct impacts on the environment, such as the chemical, electric utility, oil and gas and mining industries, reporting is almost a norm. According to CorporateRegister.com, in the first nine months of 2008 alone, some 80 major chemical companies worldwide issued CSR reports, while 80 reports were issued by mining companies, 200 by oil and gas companies, and the electricity sector accounted for roughly another 230 reports. The banking sector accounted for an additional 200 CSR reports, and retail and service companies were not far behind.

Those countries with developed stock markets—such as the United Kingdom, the United States and Japan—have seen substantial growth in CSR reporting. In the United Kingdom from 1992 to 2008, a cumulative 2,780 corporate CSR reports were published, with more than 250 published in the first nine months of 2008 alone. In that same 16-year period approximately 2,200 CSR reports were issued in the United States and 2,000 in Japan. Germany and Australia were not far behind (1,300 and 1,280), followed closely by Canada and Italy (900 and 890 respectively).

In further evidence that CSR reporting is becoming more mainstream, a KPMG study published in October 2008 found that almost 80 percent of the Global Fortune 250 companies report publicly on social and environmental data. This is a marked increase from a 2005 KPMG report which found only 50 percent of these companies publishing CSR information.

Improvements have been made not only in the quantity of CSR reports, but in their quality as well. The U.K. consultancy group SustainAbility conducts a biannual survey of the state of CSR reporting in conjunction with the United Nations Environmental Program. “Tomorrow’s Value” published in 2006 was the fourth of these surveys and listed the 50 companies that achieved the highest scores for quality in their CSR reporting. For U.S. readers of CSR reports, it is interesting to note that only five of the top 50 CSR reports were from the United States—Nike (No.10), Hewlett-Packard (15), Ford and General Electric (tied at 25) and Gap (34).
The graph above tracks total CSR reports published each year across all industries and countries. Occasionally a company produces two reports in one year so these figures are not directly related to the number of reporting companies.

The graph on the next page details reports issued across all industry sectors for the 20 countries producing the greatest number of CSR reports worldwide. The data is broken into two series: a grand total of reports for 1992-2007 and the total for just 2008.

**Why interest is growing in CSR reporting**

A number of trends in the 1990s and the first decade of the 21st century have contributed to the growing emphasis on CSR reporting.

These trends reflect the increasing size, scope, and influence of corporations in our increasingly globalized economic system, and the realization that these powerful organizations can, if poorly managed, cause great social or environmental harm—or conversely, if well managed, help address many of the major challenges societies face around the world today.
If corporations are to remain the substantial and powerful force that they have become in today’s societies, it is evident that these societies need to know how these corporations’ decisions and actions affect the basics of daily life: the air we breathe, the water we drink, the places we work, the clothes we wear, the cities we live in, the energy we use, the news we receive, and much more.

Without the cooperation of corporations—whether through regulatory compliance or voluntary measures—major global challenges such as climate change, child labor and forced labor, sustainable agriculture, the rights of indigenous peoples, childhood disease prevention, poverty alleviation and others cannot fully be met. When corporations have global reach, they need to be accountable for their global influence.

A series of factors—technological and political—have contributed to this increased influence. On the technology side, transportation has become rapid and cheap, allowing companies to move goods around the globe...
rapidly and at little cost, as well as making it easy for corporate managers to visit far-flung operations. Computer technologies have allowed companies to create and track complex organizations, product lines, inventories, customer bases, and other aspects of global operations as never before. Advances in telecommunications and the Internet have made communications around the world virtually instantaneous and introduced great flexibility to the workplace.

A second contributor to the increasing sway of corporations has been political. For most of the 20th century governments around the world exercised tight control over large corporations—whether through communist rule, socialist ownership structures, or price and antitrust regulation. Starting in the 1970s, however, advocates of market economics began to win the day and national governments around the world initiated the process of deregulation and the turning over to private enterprise of massive operations that were formerly in state hands. Telecommunications, defense, tobacco, banking, airlines, oil and gas, electric and water utilities and many other industries were transformed from highly regulated entities or arms of the state to independent, publicly traded corporations.

As governments voluntarily transferred to private enterprise these assets and economic powers, they also became increasingly interested in promoting the concept that corporations have an obligation to be socially and environmentally responsible. In the late 1990s and early 2000s, the British government under Tony Blair created a ministerial-level CSR post and funded CSR studies in universities. Several European governments required their pension funds to report on whether or not they took the social and environmental records of corporations into consideration in making their investment decisions, and in certain cases, to adopt such policies. More recently, the Chinese government has let it be known that major companies with government ownership will be expected to adopt CSR initiatives and report on them.

Governments are by no means the only parties increasingly interested in this information. It is not surprising that as CSR data becomes available that the financial community has begun to appreciate that “non-financial” (i.e., societal and environmental) data has implications for the long-term prospects of corporations. Consequently, such financial giants as Goldman Sachs, Aviva, AXA, and Société Générale have created in-house “green teams” to help integrate social and environmental analyses into stock analyses and money management.

In addition non-governmental and quasigovernmental organizations, ranging from Greenpeace to the United Nations, have increasingly focused on the role of corporations in society. Pressure from environmental and human rights activists, empowered by the Internet, has been particularly intense. At that same time ethical consuming – the consideration of the social and environmental records of companies in purchasing decisions – has grown rapidly and employees are increasingly seeking ethical companies for which to work.

As these various forces intensify the focus on CSR issues, corporations have begun to compete with each other in the CSR arena and are consequently willing to invest the time and
resources necessary to track their progress on these issues. CSR is increasingly tied to corporations’ reputations, ability to attract and retain quality employees, consumer loyalty and positive relationships with government.

These forces have provided a strong internal impetus for corporate managers to track, measure and report on key CSR indicators. Because the parties interested in CSR are so diverse, however, and the pressures so varied, we now see emerging a wide range of approaches stressing different factors and with varying levels of thoroughness and credibility. As CSR reporting becomes more the norm, what is and is not most valuable in these reports will become increasingly clear.

**Who is increasingly requiring CSR reporting?**

A number of governments and stock exchanges around the world have begun to strongly encourage the reporting of CSR data. Assuring that this data is available to the investment community and the general public is a crucial step in encouraging the systematic adoption of CSR initiatives.

Table 1 provides a summary of a study by Domini Social Investments and the U.S. Social Investment Forum, published in November 2008, of five countries that have made substantial efforts to promote CSR reporting.

In 2003, France became the first country to mandate CSR disclosure for major publicly traded companies on a substantial number of social and environmental indicators. In 2008, the Swedish government announced that it will be requiring companies with state ownership to report according to Global Reporting Initiative Guidelines. Since 2004, the Johannesburg Stock Exchange has evaluated companies for inclusion on a Socially Responsible Index. Brazil’s Bovespa stock exchange has maintained a similar listing since 2005. In 2007, the Malaysian government began requiring publicly listed companies in that country to initiate CSR programs and report on them. In addition, in December 2008, Denmark announced that the largest 1,100 companies in that country would soon be required to initiate CSR reporting or explain why they do not do so.

Reporting on specific environmental issues has also been required for some time in other countries such as Japan and, to a limited extent, the United States. The United Kingdom now requires that in reports to shareholders companies include a general discussion of CSR issues to the extent that they are material to the future prospects of the firm.

If the current trends toward increased CSR reporting continue, some combination of mandatory and voluntary initiatives will in all probability soon make such reports the norm. Exactly how this trend will play out will, no doubt, vary from country to country, but the phenomenon appears to be here to stay.
### Table 1

**Five countries encouraging CSR disclosure**

The table below provides a summary of efforts by governments and stock exchanges in Brazil, France, Malaysia, Sweden and South Africa to encourage corporate disclosure of social and environmental information.

For an extensive listing of stock exchanges around the world that have taken steps to promote CSR reporting, see the CSR Directory maintained by Michael Kane on the web site of CSRwire. It is available by searching under the topic National Stock Exchanges within the CSR Directory at: [http://www.csrwire.com/resources/directory](http://www.csrwire.com/resources/directory).

<table>
<thead>
<tr>
<th>Country</th>
<th>Disclosure efforts by government</th>
<th>Disclosure efforts by stock exchange</th>
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<tbody>
<tr>
<td>Brazil</td>
<td>2000 Bovespa launches special listing segments for companies that choose to adopt more stringent corporate governance codes.</td>
<td>2005 Bovespa creates a Corporate Sustainability Index of the highest ranked stocks in terms of sustainability and social responsibility.</td>
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<td>France</td>
<td>1977 Companies with more than 300 employees required to file a bilan social that reports on 134 labor and employment related indicators.</td>
<td>2001 New Economic Regulations Act is passed, requiring publicly listed companies to disclose data on 40 social and environmental criteria in their annual reports to shareholders.</td>
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<td>2001 Law on Public Pension Reserve Funds requires disclosure on how investment policy guidelines have addressed social, ethical, and environmental considerations.</td>
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<td>Malaysia</td>
<td>2007 Malaysian government requires all listed companies to publish corporate social responsibility information in their annual reports.</td>
<td>2007 Bursa Malaysia updates its listing requirements to implement government policy mandating disclosure of corporate social responsibility data in annual reports.</td>
</tr>
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<td>2007 Government announces that the Malaysian Employee Provident Fund, with assets of $79 billion, will strive to invest in companies with good corporate social responsibility practices.</td>
<td>2007 Bursa Malaysia creates and publishes a framework for corporate social responsibility reporting and practices for listed companies.</td>
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<td>South Africa</td>
<td>2004 Broad-Based Black Economic Empowerment Act requires disclosure on corporate initiatives regarding black empowerment.</td>
<td>2003 JSE updates listing rules to mandate reporting on compliance with King II Codes.</td>
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<td>2004 JSE launches its SRI Index, composed of the top performing companies on the exchange with regards to economic, social, and environmental issues.</td>
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<tr>
<td>Sweden</td>
<td>2000 Public Pension Funds Act prompts national pensions funds to draw up annual business plans that describe how environmental and ethical issues are considered in investment decisions.</td>
<td>2007 The OMX publishes its Wholeheartedly Proud Policy, reserving the right to delist companies who violate ethical norms.</td>
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<td></td>
<td>2007 Swedish government announces that by 2009 all state-owned companies will be required to produce an annual sustainability report in accordance with G3 guidelines.</td>
<td>2008 The OMX launches OMX GES Nordic Sustainability Index, consisting of the 50 leading sustainability Nordic companies.</td>
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Chapter Two

Who reads CSR reports?

CSR reports are valuable to many different types of readers – investors, employees, academics, community activists, public officials, corporate managers and others – for many different reasons. For example, in a 2008 report called “Count Me In: The Readers’ Take on Sustainability Reporting”, the U.K. consultancy group SustainAbility, analyzing more than 2,300 responses to the Global Reporting Initiative’s Readers Choice Awards survey, found that approximately 55 percent used CSR reports for consuming and purchasing decisions, 45 percent for investing, 38 percent for engagement, 34 percent for partnerships, 32 percent for finding employment and 26 percent for conducting business-to-business relationships.

The following are a number of the different uses to which CSR reports lend themselves.

Reading for investment
CSR reports are most frequently thought of as valuable to the financial community, helping analysts gain insights into companies that are developing new social and environmental products with growth opportunities and whose excellent management helps them avoid CSR risks. These insights include:

Social and environmental risks and rewards: These risks may go unrecognized in traditional financial reports and can include such things as inadequate climate change policies, poor management practices for toxic chemicals, or lack of attention to labor standards at overseas suppliers. On the positive side they may find innovative alternative energy strategies, strong employee training programs, or customer service initiatives and quality programs that enforce brand loyalty.

Quality of management: A thorough, high-quality CSR report may also indicate that management is forward looking and exercises good judgment on emerging issues. Financial analysts often believe that a company with high-quality management will have effective business strategies as well.

Investment firms that use CSR data in their decision-making are many and varied. In the United States a number of firms specializing in socially responsible investing – such as Calvert Asset Management, Domini Social Investments, Green Century Funds, Parnassus Asset Management, Pax World Funds, Trillium Asset Management and Walden Asset Management – incorporate SRI data into their full range of investment decisions. In the United Kingdom, Generation Asset Management, F&C Asset Management and Hermes are among those committed to incorporating a wide range of CSR and corporate governance indicators into the investment process. The Norway State Pension Fund has policies limiting its investment in companies that produce weapons of mass destruction and abuse human rights. The French national pension fund, Fonds de Réserve pour les Retraites, is committed to responsible investment across various asset classes.
Reading for engagement
For fiduciaries voting on corporate proxies or for community activists engaged in corporations on controversial issues, CSR reports can help clarify a company’s policies and practices on key social and environmental issues. Reading a CSR report may help those interested in engaging with companies identify:

- Stated internal policies on key social and environmental issues
- Actual records on these same issues
- Willingness to enter into dialogue with stakeholders on these issues

Engagement can come from religious or nonprofit organizations with social and environmental concerns or institutional investors seeking to tie improvements in these areas to improvements in financial returns.

Since the 1970s in the United States, the Interfaith Center on Corporate Responsibility has been a coordinating center for religious organizations, environmentalists, unions, and others interested in engaging corporations on social and environmental justice issues through shareholder resolutions. Among other things, its members have long pressured corporations for greater transparency on CSR initiatives. In 2009, for example, ICCR members pressured Apple, Boeing, Marriott and Safeway, along with more than a dozen other companies, to increase their sustainability reporting.

In the United Kingdom, several of the largest investment firms in the country, including F&C Asset Management and Aviva, have committed to engaging with corporations throughout their portfolios on sustainability issues.

Uses of employment data
Data on the employment practices of companies have become the basis for widely publicized lists of “best” companies to work for. Each year, for example, Fortune magazine publishes its list of “The 100 Best Companies to Work For in America,” compiled by the Great Place to Work Institute. Similar lists of best companies for women, blacks and Hispanics to work for are also frequently published by other magazines. Companies with outstanding workplaces are also the basis for the Parnassus Workplace Fund, which believes that companies with high levels of employee satisfaction will perform better than their peers over the long run.

Among academic studies that underpin the theories behind the Parnassus Workplace Fund is a paper by Alex Edmans titled “Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices.” This paper found superior performance in a back test of the stock prices of companies in a fund created from the Fortune list. For more on this paper and similar studies, see www.sristudies.org.
Reading for employment
Employees at a company or those seeking employment may read CSR reports to help identify companies’:

- General corporate culture and sensitivity to social and environmental issues
- Specific policies and practices on employee benefits (e.g. training, profit sharing) and safety
- Record on employee and union relations in comparison with those of its peers

Reading for management
For corporate managers, the discipline of not just reading but also of preparing a CSR report for a firm can provide focus on issues that often get lost amid the daily focus on simple profits. Among other things, reports on CSR initiatives can help:

- Measure what needs to get managed
- Document the evolution of how particular issues have been addressed at a firm over time
- Identify a company’s strengths and weaknesses
- Increase internal awareness of CSR and build support within the firm for these initiatives
- Publicly set corporate goals and measure progress toward achieving them

Reading for purchasing
For purchasers of a company’s products or services – whether individual consumers, businesses looking for suppliers, or governmental agencies or nonprofit organizations seeking contractors – CSR reports can help:

Corporate managers on the value of CSR reporting
The following are quotations from corporate managers on the value of CSR reporting taken from “The Value of Social Reporting” by Belinda Richards and David Wood, published in 2009 by the Institute for Responsible Investment at Boston College.

“Sustainable development is now a recurring theme in the energy industry. It’s a rare corporate speech, financial report or regulatory filing that fails to incorporate sustainability as a cornerstone principle of a company’s growth strategy or expansion project.”
—Rick George, CEO, Suncor

“Having a sustainability report creates discipline around what’s important, what should be measured. When you measure something you have a gauge of where you are compared to where you’ve been, and you can further the analysis of why you are where you are.”
—Alice Campbell, senior director of community relations, Baxter

“It’s not about the report. The report is a means to the end, not an end. What it does is reinforce the values. It’s a great communication tool but it all begins with what the values of the company are, and the report is going to communicate that.”
—Ronald Logue, chairman and CEO, State Street Corporation
• Assess how the company’s CSR record compares to that of other vendors
• Help make purchasing decisions based not solely on price but on the social and environmental implications of the purchases as well
• Assure that vendors hold the same values and commitments to CSR as the purchaser

Large corporations are increasingly being pressured to monitor the CSR records of their suppliers, to encourage them to adopt best practices, and to give preference in purchasing to those with the strongest CSR programs. In addition, the consuming public has increasing access to data on companies’ CSR records through such online services as GoodGuide.

Reading for research
For researchers – academic or otherwise – CSR reports can provide a unique source of data. Among other things, researchers can find:

• Evidence of how a company identifies its key social and environmental concerns
• Comparable data that allows measurement of a company’s progress over time and its performance versus its peers
• Figures that allow measurement of a company’s social returns and overall contributions to society

One of the great strengths of CSR reports, as opposed to reporting designed for shareholders alone, is their value to constituents beyond the financial community.

Use of CSR data by academics
For a sampling of the research uses to which academics have put CSR data and analysis, visit the web site www.sristudies.org. It maintains a comprehensive listing of academic articles dealing with the quantitative aspects of socially responsible investing and its financial performance, many using data drawn from research organizations such as KLD Research & Analytics that rely on CSR reports in part for their ratings and rankings. The site’s annotated bibliography has been compiled by Lloyd Kurtz, senior portfolio manager with Nelson Capital Management, over 15 years. The site is a project of the Moskowitz Research Program, affiliated with the Center for Responsible Business at the Haas School of Business, at the University of California, Berkeley.
The first and last question a reader of a CSR report should pose is: how thorough and credible is this report? Below are nine questions that help identify a complete and thorough CSR report by a transparent and candid firm. Further discussion of what makes for a credible CSR report can be found in SustainAbility’s 2008 publication, “The Road to Credibility, A Survey of Sustainability Reporting in Brazil”.

Is this a CSR report or a community affairs report?
Readers of CSR reports should expect companies to go beyond simply community affairs reporting. Companies new to corporate social responsibility may confine their programs and reporting to charitable giving and volunteer programs. The first step on the road to a comprehensive CSR program often consists of community affairs activities such as volunteer programs, in-kind donations, sponsorships of fund-raising events, or gifts to local educational organizations, sporting events, or health-related causes. These reports are the natural outgrowth of a company’s contacts with its local communities and are an important part of its community relations.

As corporations are increasingly expected to issue CSR reports, some have chosen to call their reports on community affairs CSR reports. Although generally speaking a CSR report that focuses solely on community is too narrow in scope to be considered comprehensive, reporting on commitments to communities is a vital part of a thorough CSR report.

Community affairs reports can be useful to many in local communities looking to understand how firms can best support their endeavors. However, they generally fail to pro-
provide others with the substantive information necessary to assess the strengths and weaknesses in a corporation’s interface with the full range of its stakeholders and society.

**Does the report provide details on CSR practices as well as policies?**

In addressing various CSR issues, readers will find that companies may report either on general policies or on specific practices. A thorough report will include both, each of which serves its own purpose.

General policies in areas of social or environmental concern are the basis on which comprehensive programs are often built. From these policies the reader can often sense how comprehensive and ambitious a company’s goals may be. By contrast, absence of policies in these areas can signal mismanagement of essential stakeholder relations. Policies express aspirations and ideals and spell out how a company hopes to achieve them. They are the first step on the road to implementation and without them companies are not likely to make substantial progress.

Companies’ reporting on policies may or may not indicate real progress in implementation. A complete CSR report will provide details on actual practices as well – such as reductions of volume of waste produced per unit manufactured or absolute levels of greenhouse gas emissions. Specific facts and figures can be an indication of a thorough, carefully monitored program.

Policies commit companies publicly to implementing programs and achieving goals. By themselves, however, they should be viewed with caution for two reasons. First, companies’ policies may in fact be more aspirational than practical – that is to say, they may be slow to put them into effect. In addition, a company’s political stances when it comes to lobbying and regulatory disputes may in fact run counter to its stated CSR positions.

Nevertheless, a company’s report on policies may be a prelude to a thorough, soon-to-be-implemented CSR program. For example, because French companies are now required to report on their CSR initiatives, some published reports detailing new sustainability policies and noting that details will follow in future years. Readers should recognize that policies precede practice and allow time for the hard data to be reported.

**Does the CSR report provide systematic data or just anecdotes?**

In reading a CSR report, a reader should look first for systematic, company-wide data, and only then for anecdotes. Anecdotes – short stories about a particular program at a particular location – can provide useful insights into experimental efforts or one-off initiatives. More valuable in assessing a company’s overall record, however, is data gathered systematically for the whole firm. Such data can assure the reader that an issue is being managed comprehensively and at the highest levels and is part of the company culture. Company-wide data is also necessary for readers to compare one firm with its peers or measure a company’s overall progress year to year.

For example, a pulp and paper company’s anecdotal report on innovations in energy efficiency or reductions in water consumption at a single mill is not truly helpful. The reader does not know if the mill is a major or a
minor one, if similar initiatives are in place at the firm’s other plants, or if the company has reduced the company’s overall energy use or water consumption. These questions cannot be answered without more systematic data.

That is not to say that readers should ignore anecdotes when they appear. They can provide a feeling for new directions a company may be taking, pilot programs it is initiating, trend-setting programs that may serve as an example for its industry, or the general priorities of the firm. They can put a human face on dull statistics, provide a sense of company culture, and help readers understand what makes one company stand out in its industry.

To measure and compare a company’s record to that of its peers, or to see progress over time, readers need data that is:

- Aggregated up to a company-wide level
- Reported in the same format each year
- Presented both in absolute numbers and in a normalized format

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**CSR reporting at the facility level**

The Canadian mining companies Teck Cominco and Barrick Gold report on aspects of their environmental records at their major mines. Similarly, U.S.-based semiconductor manufacturing company Advanced Micro Devices regularly reports on its environmental performance at a facility level. This chart appears on page 15 of AMD’s 2009 Global Climate Action Plan.
Few companies report on their CSR records at a facility level in addition to aggregating that data company-wide. Facility-level reporting can be particularly useful when the company is in a capital-intensive industry that requires maintaining large plants or sites likely to have substantial local impacts. These facilities can often become controversial at a local level. Public reporting on the specific environmental or safety records of these sites can be a sign that the company is taking communications with local communities seriously. This data can be of particular use to environmental or community groups. For this reason, Ceres and the Tellus Institute have launched the Facility Reporting Project in the United States to encourage facility-level reporting. This project’s 2005-2008 pilot testing focused primarily on U.S. facilities. The Global Reporting Initiative and others have emphasized the need for facility-level reporting in other regions of the world as well.

A few corporations with global operations, particularly those in the extractive industries, report on their environmental impacts at a regional level. BP is an example of one firm that has taken this approach.

**Does the company report data in a comparable format?**

Readers of CSR reports will find particularly valuable the ability to compare a company’s performance with that of its peers or with its own performance from year to year. To do so, the company must report data in a comparable format. Unfortunately, it is not always easy to find comparably reported data.

A number of questions will help readers identify comparable data. For example:

- Is the data reported in absolute numbers (e.g., total number of pounds of toxic chemical emitted) or is it adjusted for the size of the company’s operations (e.g., amount of energy used per unit of product manufactured or per dollar of sales)? It is easier to compare adjusted data over time for an individual company or among peers than it is to compare absolute data. On the other hand, absolute data gives a better sense of absolute progress.

- Has data been adjusted to reflect major changes in corporate structure (e.g. major acquisitions or divestitures) or in market conditions (e.g., a slowdown in demand)? A company can report a dramatic drop in toxic releases if it has sold a subsidiary or if a drop in sales forced it to temporarily close a plant.

- Are a company’s product lines or business models comparable with those of its peers? Even within an industry, the business models or product lines of individual companies can cause their CSR reporting to differ dramatically. Within the chemical industry, for example, industrial gas companies produce chemicals such as oxygen and nitrogen that can be extracted from the air with relatively few emissions, while commodity chemical companies that rely on petroleum as a feedstock are inevitably engaged in much more environmentally challenging operations.

Readers should examine figures carefully to make sure they are in comparable format and that companies reporting are in comparable industries.
Examples of North American companies whose CSR reports have included detailed environmental and social data in comparable format over extended periods of time include Timberland, Hess and Suncor (See box in Chapter Four for an example of reporting by Hess in both formats.).

**Does the report present future goals as well as past practices?**
A complete and thorough CSR report provides readers with a clear picture of the company’s future direction and goals, as well as its past performance. Past performance is important to demonstrate progress against stated goals. In addition, however, readers may want to know where it is heading. How ambitious are its CSR programs? What priorities is it setting for its relations with each of its stakeholders and for its environment programs? Has it succeeded in meeting its previous goals?

Many of the best CSR reports present in clear tables the company’s goals as announced the previous year side by side with its actual progress in achieving them – and then go on to present goals for the coming year. These lists of goals and achievements are particularly valuable because they help readers see at a glance where a company is allocating its resources to social and environmental issues and how effectively it has used these resources.

**Does the report include bad news as well as good news?**
A thoughtful balance of bad news with the good is essential to a credible CSR report. No company is without its problems or contro-
verses, and companies are understandably eager to tell their positive stories such as awards they have received or goals they have achieved. However, readers of CSR reports will want to know (or may already know) not only what scandals a company has recently been involved in – product liability issues, environmental disasters, problems with unions, and so on – but how a company has handled these challenges.

Companies may be inclined to omit entirely or to minimize details on the bad news they have faced, even though it may have been widely publicized. In such cases, a reader might reasonably conclude either that a company does not appreciate the seriousness of the problem or has not been thorough in its response.

Conversely, readers should avoid falling into the trap of automatically being scandalized by substantial discussions of bad news. Accidents happen. Mistakes are made. Not all bad events arise from bad intention or mismanagement. Moreover, even when companies are to blame in a difficult situation that does not necessarily mean they shouldn’t be credited with handling the aftermath well. Under the right circumstances, the confrontation of bad news by corporations can not only demonstrate progressive thinking on CSR issues, but can also place a company in the forefront of its industry in addressing major challenges.

For example, Gap, Inc. – criticized over the past decade along with its peers for poor labor standards in the factories of overseas vendors – debated how best to confront this issue in its first CSR report. It sought advice from a coalition of concerned shareholders and nonprofit organizations critical of its past stance and lack of transparency on this issue. Ultimately, the CSR reports it published starting in 2004 have rated and ranked the factories in different regions on their abilities to achieve best practices and featured case studies of difficulties in implementing its labor standards. This forthrightness broke new ground in CSR reporting and earned Gap praise from its critics and peers. This is not to say, however, that the Gap and others do not face continuing challenges and opportunities for increased transparency and improvements in labor standards.

**Does the report address the company’s greatest challenges?**

One of the most valuable insights to be gained from a thorough CSR report is how a company is grappling with the greatest challenges of its industry. Transparent firms will confront these issues head-on.

These challenges are generally industry-wide in scope, relate to a company’s core products or business model, pose substantial reputational risks, and have significant profit and loss implications for the firm. None of them are easy to deal with.

For example, because fossil fuels lie at the heart of our climate-change challenges, a petroleum company needs to acknowledge its product’s potential harm and to take steps to address the issue. When apparel companies capitalize on cheap labor abroad, they need to assure that abuses don’t occur and to raise labor standards systematically. If it is clear that automobiles can be made substantially more fuel efficient – a step that has positive
environmental and financial benefits for society as a whole – car manufacturers must confront the implications of their taking on the expense of upgrading their fleets.

Many companies shy away from raising these difficult issues. Those that do not avoid the subject, however, deserve credit. For example, Vivendi, the French media company, devotes substantial space in its 2007-2008 Sustainability Report to three issues it has identified as key to its relationships to society: protection of young people, promoting cultural diversity and sharing knowledge. Although increased sensitivity to cultural diversity does not necessarily pose substantial challenges to its business model, the complicated questions about what content young people should be allowed access to over the Internet and their addiction to interactive games raise difficult business model questions about where the company needs to limit, rather than promote, its products.

The questions both of industry-wide challenges and of controversies are related to the question of the “materiality” of social and environmental issues to stakeholders in the corporation.

**Does the company integrate CSR reporting with its traditional business strategy and its financial reporting?**

The integration of CSR data with traditional business strategy and financial reporting can provide two valuable insights. First, it can indicate that CSR issues are taken seriously at the highest levels of management.

Second, it can help investors understand the financial implications of these initiatives.

When energy efficiency programs are tied to cost-cutting plans within the firm or integrated into strategic plans for new product development, or when expenditures on employees help retain customers or reduce workers compensation costs, readers can see the financial benefits.

Few U.S. companies systematically integrate CSR data into their financial reports.

**How can readers look beyond a CSR report?**

Readers wishing to assure themselves that company reports have validity may look to third-party assurance statements in these reports (see below for a further discussion of assurance) or they may want to seek additional outside sources of information on issues raised in these reports that might provide contrasting viewpoints or data.

A number of supplementary sources are available. Some are easier to use and more accessible than others.

The press is one of the best sources for additional information, particularly for controversies. Beyond general press searches through Nexis, Factiva or other search engines, several online sources, such as CSRwire, SocialFunds.com, Ethical Corporation, Ethical Performance and Responsible Investor specialize in providing up-to-date CSR news.

Environmental, labor, human rights, community and other nonprofit organizations also provide contrasting views on companies’ CSR efforts. These groups tend to specialize in particular issues and the larger, better established groups are usually reasonably balanced and
The importance of materiality

Publicly traded companies have a widely recognized obligation to report to investors on issues that are material to their operations. Materiality is generally defined as information that is useful in investment decision making. The accounting profession has usually interpreted this to mean financial information useful to investors. Advocates of CSR reporting argue that the definition of materiality should be extended to the societal relevance of an issue for all stakeholders.

Three organizations that have addressed the issue of the materiality of social and environmental data in corporate reporting are AccountAbility, SustainAbility and the Global Reporting Initiative. AccountAbility’s publication “The Materiality Report: Aligning Strategy, Performance and Reporting” argues that much data that is often useful to more than the financial community is not now considered by companies as material, but should be.

AccountAbility proposes five criteria that would qualify data as material. They are relevance to a company’s: 1) short-term financial performance; 2) its ability to execute its stated strategies and policies; 3) the best practices of its industry as established by its peers and competitors; 4) stakeholders’ behavior (stakeholders being defined as those who are impacted by a company or impact the firm); or 5) behavior relative to broad social norms or expectations. More simply, it describes as material any issues that make a major difference to a company and its stakeholders.

Similarly, SustainAbility’s definition of materiality includes issues that 1) are at the heart of a company’s business; 2) have the potential for a major impact; 3) matter to the company’s stakeholders; and 4) are ones on which the company can act meaningfully and effectively.

The GRI’s explanation of materiality is laid out in its G3 Guidelines. The GRI states that a report that contains information of important or “material” value to stakeholders should include “topics and indicators that reflect the organization’s significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders.”

reliable. For example, the Business and Human Rights web site is an excellent source for labor and human rights issues as they relate to companies.

SRI research firms such as IW Financial, Jantzi-Sustainalytics and RiskMetrics (which acquired Innovest and KLD Research & Analytics in 2009) in the United States specialize in compiling and analyzing CSR data on corporations for the investment community. For many companies they publish profiles, but these are usually available only to subscribers. Web sites geared to socially conscious consumers, such as GoodGuide and Green America, provide some general corporate ratings on social and environmental metrics, but frequently lack specifics and details.
Chapter Four

Reading a CSR report: Key elements

This chapter examines the primary elements of a thorough CSR report. CSR reports can differ dramatically in their form and format, but the key elements generally remain the same.

The CEO’s letter

The first section in a CSR report is often a letter from the company’s CEO or from the head of its CSR program or a committee overseeing these programs. These letters are important because they can give readers a strong sense of the degree of the company’s commitment to CSR programs at the highest levels. Such commitments are essential if CSR is to permeate the company’s culture.

An introductory letter from the company’s CEO is, in and of itself, a positive indicator. Sometimes a letter from the head of CSR or a CSR committee is also included. For example, in State Street’s 2007 CSR Report, CEO Ronald E. Logue and Director of Community Affairs George A. Russell Jr. both wrote letters for the readers.

Readers may not be satisfied with CEO letters that fail to go beyond generalities about a company’s aspirations to become a good citizen and discussions of its business and products. More telling are those letters that address the specific CSR challenges that the firm faces — its accomplishments from the past year and goals for the next, the resources devoted to making specific CSR programs work, and the ways in which a culture of responsibility is incorporated throughout the company. In particular, a CEO who talks about such things as the tying of the compensation of his top managers to the achievement of CSR goals, building the company’s public reputation on its CSR commitments, or taking a leadership role on CSR initiatives within the firm’s industry is making significant commitments. Such statements don’t guarantee success but are likely to signal serious efforts.
The following is Johnson & Johnson’s Credo, included in its 2007 Sustainability Report. Note particularly the company’s emphasis on fairness in its relations with stakeholders.

**Our Credo**

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers’ orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens — support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return.

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**Mission and values statement**

Today most companies have mission or values statements, which are usually included in their CSR reports. Mission statements set forth the goals of the firm. Values statements enumerate the qualities it seeks to cultivate and to be known for.

Although from firm to firm mission statements tend to look alike (for example, being the best in its industry) and values tend to stress similar qualities (for example, honesty and integrity), it is useful for companies to go on record with high aspirations and commitments to ethical behavior. These public statements become a standard to which the company can be held and by which it can be measured. Johnson & Johnson, for example,
was widely praised for recalling its Tylenol product in 1982 in part because this action was seen as a public embodiment of its Credo, which it had promulgated widely since the 1940s.

**Summaries of key facts and figures**
Among the most valuable sections of a CSR report are its summaries of key facts and figures. A thorough CSR report features these summaries prominently, usually toward the beginning of the report, sometimes at the start of each stakeholder section, and occasionally in both places.

These summaries are important because they make easily accessible the most important figures that might otherwise lie buried in pages of text, graphs and boxes. These summaries demonstrate at a glance what a company considers to be its greatest CSR challenges and accomplishments.

If a company provides no summaries, this can indicate either that it hasn’t understood or addressed its key CSR issues, or that it isn’t adequately measuring its efforts and their results.

**Tables and graphs**
For many indicators, intelligently designed tables and graphs provide readers with an effective way to determine the company’s record. They are especially useful for capturing trends, which are often as important as the specifics of performance.

Data comparability is a key issue here, as many indicators can be presented in different forms. For example, much progress was made in the reductions of releases of toxic chemicals in the United States in the decade after the passage of the Toxic Releases Inventory Act in 1987. One company may begin its graphic representation of reductions starting in 1990, while another starts its in 2005. The company starting its graph in 1990 may show a more impressive decline, although its record is comparable to the company starting its data presentation in 2005.

Graphs and tables can also be presented with either absolute or normalized data. Both are important, but each must be assessed in its own way. (See accompanying box.)

Generally speaking, graphs and tables are most helpful when they present:

- Both absolute and normalized figures
- Year-over-year comparisons
- Progress reports versus previous goals
- Data relative to industry peers

Some CSR reports cram an abundance of detail into numerous boxes and tables. While impressive in their apparent scope, overly elaborate tables can signal a firm that is tracking too many issues of minor importance and failing to focus sufficiently on its most significant challenges.

**Pictures and other graphics**
Although it is true that a CSR report with just a few pages of photos and a couple of paragraphs about charitable giving may signal a weak CSR program, a well laid-out CSR report that integrates photos and other graphics can make for reading that is accessible, lively and pleasurable, while still being informative. Attention to layout and readability is often a sign of a thoughtful approach to CSR reporting.
Presenting absolute and normalized numbers

Some companies report data in absolute numbers, others in a normalized format, and some in both. A report in absolute numbers might document the total amounts of energy used by the company in the course of a year, total number of fatalities, or the total amount of toxic chemicals released into the environment. To normalize energy usage data, for example, the company would report the amount of energy used per unit of production, per employee, or even per square foot of office space. When data is normalized in this manner, it provides a sense of the “intensity” of energy usage.

Absolute numbers alone, whether increasing or decreasing, won’t tell you if changes come from growth or contraction of the business or from increasing or decreasing efficiency. Only normalized numbers can do that. On the other hand, normalizing the number of fatalities for the total number of employees misses the point that even one fatality is too many. Similarly, if a company discharges ever increasing amounts of toxic chemicals into the environment due to increased production, although fewer chemicals per unit of production may be generated, the overall result is still negative. For a complete picture, both absolute and normalized numbers are, in most cases, useful. In the accompanying chart, Hess reports both absolute and normalized numbers for Greenhouse Gas Emissions over time.

(Hess, 2008 Corporate Sustainability Report, pg. 28)
Tracking environmental data over time

Coke’s Sustainability Review presents normalized water and energy use statistics over time in an easy to follow format.

GRI Index and GRI Grade
The Global Reporting Initiative (GRI) has developed an influential CSR reporting framework (discussed in greater detail below). Two aspects of that framework – a GRI Index and a GRI Grade – have been widely adopted and show up frequently in CSR reports.

Many CSR reports include a GRI Index. This index has evolved to deal with the challenges of organizing CSR data. The GRI’s detailed and standardized format for reporting has 90 indicators. Few companies follow these guidelines mechanically, choosing instead to adapt them to the particularities of their industry and their company.

Consequently, the data outlined in the GRI guidelines can appear in different parts of companies’ CSR reports. So that readers can easily find specific data, companies often include a so-called GRI Index. This index lists the specific GRI indicators and the page on which the indicated data appears. Although use of GRI isn’t a prerequisite for strong reporting, a company that includes a comprehensive GRI Index generally demonstrates sophistication about CSR data collection and management.
For reports prepared with the most recent GRI Guidelines (G3) in mind, readers may find a box with a letter grade, sometimes followed by a plus sign (i.e., C, C+, B, B+, A, A+). These grades have a specific, narrow meaning. They do not represent an independent opinion by the GRI or others of the completeness or accuracy of the report. Instead it is a self-assessment by the individual company of the level of reporting completeness according to the G3 Guidelines. See the accompanying box for further details.

The GRI asks companies to assign an A letter grade to their report when they have reported on all indicators included in the G3 Guidelines, or have justified their reason for omission (e.g., the data is legally impossible to report, the data is totally absent from the sector). For B level disclosure a company must report on at least 20 performance indicators. For C level disclosure, reports need to cover only 10 performance indicators. When a plus sign (“+”) appears after the letter grade, it means that the report has been reviewed and approved by a third-party auditor.

**Statements of assurance or other third-party evaluations**

At the end of an increasing number of CSR reports, readers may find third-party assurance of the accuracy of the information in a company’s CSR report. These are statements verifying the reliability of the CSR reporting processes and are in many senses the equiva-

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### GRI grading

The following is an example of a GRI Grade that Timberland used in its 2007-2008 Corporate Social Responsibility report (pg. 29)
lent of a financial auditor’s statement.

Readers should be aware, however, of a number of nuances about these letters of assurance. To be credible, they should be issued by independent third parties. The Big Four accounting firms – KPMG, Deloitte, Price waterhouse Coopers, and Ernst & Young – are major players in this field and, according to CorporateRegister.com, conduct about 40 percent of these audits. Consultants specializing in CSR reporting have also sprung up and now account for about 24 percent of third-party verifications. In addition to the GRI, two sets of standards for CSR reporting have evolved: AA1001 and ISAE3000. About 25 percent of CSR reports are certified against these standards.

On occasion, CSR consultants who have helped a company prepare its report also provide a testimonial to the rigor of the report. Also, individuals well known within the CSR world occasionally endorse reports. Such endorsements cannot generally substitute for independent third-party assessments.

Assurance of CSR reports is increasingly the norm. CorporateRegister.com reports that some 650 CSR reports with assurance statements were issued in 2007. European companies were the most enthusiastic adopters, with 64 percent having assurance statements, as opposed to only 5 percent of North American firms.

Although assurance by third-parties is a sign that a company takes its CSR reporting seriously, the absence of a third-party assurance statement does not necessarily indicate a lack of rigor. Companies with excellent reporting may well decide the considerable expense of such assurance is not worth the effort.

**Verification by third parties**

For an excellent in-depth analysis of CSR assurance see CorporateRegister.com’s publication “Assure View: The CSR Assurance Statement Report”. Published in 2008, it is available at www.corporateregister.com. In addition, AccountAbility has issued its AA1000AS Assurance Standards, which establish guidelines for CSR reports, and provides training for auditors.

**Interviews and surveys**

Some CSR reports include interviews, surveys, opinion pieces or evaluations by various stakeholders including critics of the corporation. A willingness to open the company to critical appraisal may seem surprising. Companies almost never give voice to disgruntled stockowners in their financial annual reports. However, outside voices discussing the company’s CSR approaches can be valuable.

Inclusion of these independent voices is an indication of an open-minded management willing to consult with, and incorporate into their processes, independent views on CSR policies and practices. In addition, outside input can help draw management’s attention to issues that might have been overlooked because they are not directly material to today’s stock price, because they are issues new on the horizon, or because managers have avoided confronting them head on.
This advice can come from: a stakeholder advisory committee that meets regularly with management; an uncensored opinion letter from representative stakeholders; or mini-interviews with those representing a variety of viewpoints. Publishing this feedback in CSR reports sends a strong signal that the firm is willing to engage with stakeholders, consider criticisms objectively and seriously, learn from its critics and address emerging issues as they arise.

The credibility that outside voices can provide is, however, a two-edged sword. Because corporations are aware of the benefits of independent testimonials, they may seek to publish only favorable reviews, or not follow through on recommendations. Readers should assess the quality of the feedback sought and management’s willingness to acknowledge its critics as well as its supporters.

**Including the voice of stakeholders**

Dell discussed stakeholder feedback thoroughly in its 2008 Corporate Responsibility Report (pg.29).

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>STAKEHOLDER INPUT</th>
<th>DELL RESPONSE</th>
</tr>
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<tbody>
<tr>
<td>Climate Strategy</td>
<td>Develop a comprehensive climate strategy that encompasses product design, supply chain, manufacturing, facilities, logistics and policy</td>
<td>Committed to be carbon neutral in worldwide operations by end of calendar year 2006</td>
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<td></td>
<td></td>
<td>Committed to reducing carbon intensity by 15% by 2012 based on 2005 levels</td>
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<td></td>
<td></td>
<td>Launched additional ENERGY STAR and Energy Smart products</td>
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<td>Requested major Tier 1 suppliers to report their carbon emissions through the Carbon Disclosure Project</td>
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<td></td>
<td></td>
<td>Launched ReGeneration.org — a global community of people committed to sustaining the world’s natural environment</td>
</tr>
<tr>
<td>Global Citizenship</td>
<td>Use Dell expertise to train and improve suppliers’ social and environmental performance</td>
<td>Held two supplier workshops, one focused on workplace issues in our supply chain and one on driving BSCI Code of Conduct awareness and standards deeper into the supply chain</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Worked with suppliers to start 17 more BSCI projects in FY08</td>
</tr>
<tr>
<td>Governance</td>
<td>Disclose more information about Dell political contributions and who approves contributions</td>
<td>Published our public policy on political spending and included the major trade associations to which we belong</td>
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<tr>
<td></td>
<td>Provide additional transparency to the SEC investigation</td>
<td>Included information about the investigation in the FY08 report; added to and highlighted information in the FY09 report</td>
</tr>
<tr>
<td></td>
<td>Document who has responsibility for Dell’s sustainability management</td>
<td>Provided an organizational chart and information on the new vice president of Corporate Responsibility and his reporting chain to the Board of Directors in this year’s report</td>
</tr>
<tr>
<td>Emerging issues</td>
<td>Provide information on Dell’s new areas of sustainability focus</td>
<td>Created the “Emerging Issues” section in this year’s report to discuss additional areas of Dell engagement including Global Citizenship, HIV/AIDS, Mining and Materials Extraction, Nanomaterials and Retail</td>
</tr>
</tbody>
</table>

Figure 16: Stakeholder Input and Dell’s Responses
Chapter Five

Reading the report: Stakeholder data

Many CSR reports are organized by stakeholder, allowing stakeholders to focus on the information most valuable to them. The following discussion of key CSR issues is organized similarly. The goal is to call attention to those issues that stakeholders might want to focus on, discuss some of the ins and outs of reporting on these issues, and indicate what types of data are most valuable and what are not.

This chapter can be no more than a general guide to this stakeholder data. Not all CSR issues are covered, nor are they all discussed in the depth that they might deserve. It is hoped this provides an overview of which data is most likely to appear and a cumulative sense of how to evaluate it.

Investors

Among key issues that may be of value to investors, along with other stakeholders, as they read a CSR report are the following.

- **Business model**: Integration of CSR into business strategies and product development
- **Corporate governance**: Board-level oversight and integration of CSR considerations into stakeholder relations
- **Ethics**: Corporate culture of honesty and ethical behavior

**Business model**

**Integration of CSR into business strategies and product development**: Without understanding a company’s product line and business model, it is difficult to fully understand the significance of its CSR reporting. Realizing where a company makes its profits, and how, is particularly useful to investors in assessing the financial implications of CSR programs. CSR initiatives that are tied to a company’s product lines and business models – such as the introduction of energy efficient appliances, the marketing of organic foods and the targeting of “bottom of the pyramid” customers in the developing world with affordable products – are likely to become a part of the company’s ongoing business activities and internal culture.

Understanding a company’s business model also helps identify CSR risks that can adversely affect profits. When a company’s products cut against the CSR trends of the time, this may pose dilemmas for a firm. Sometimes dilemmas are clear – a cigarette company must address the health effects of its products. For others, more detailed knowledge is necessary to understand the interplay between responsibility and profits. For example, a credit card company can engage in marketing and lending practices that either are benign or are abusive. When its profits depend on the latter, either its CSR image or its profits will suffer.

For these reasons, it is helpful to investors to find extensive CSR data and financials in the same report. The simple fact of such integrated reporting is generally a sign that a company is pursuing a triple-bottom-line approach, integrating people and planet with its profits.
Corporate governance
Board-level oversight and integration of CSR considerations into stakeholder relations:
Stock owners in a company who want to assure that their managers are running it responsibly generally look to corporate governance policies and the board of directors to protect their interests. Moreover, if management is not looking out for its stock owners, other stakeholders may also be concerned that it is unable to look out after their interests.

Much reporting on corporate governance about the role of the board of directors – its independence from management, its conflict-of-interest policies, its compensation and other key issues – has a standardized feel to it today in part because stock exchanges and regulators in the United States require such reporting.

For investors looking to identify companies that go beyond the ordinary, a board-level committee devoted to corporate social responsibility is one indication of serious commitment by management. In addition, efforts to give shareholders a voice in board-level deliberations is a positive sign. For example, a debate is raging now over whether shareholders should be allowed to have direct access to the ballot for election of members of the board of directors (Currently in the United States, shareholders can only withhold their votes for board nominees as a protest vote.). Those companies allowing more direct access demonstrate openness in this regard.

Ethics
Corporate culture of honesty and ethical behavior: Protecting the company’s reputation, avoiding legal liabilities, and assuring the company’s ability to do business with governments around the world are all reasons for investors to be concerned about ethics. Moreover, it is simply a good way to run a business.

Descriptions of business ethics programs in a CSR report, however, can be difficult to
evaluate. Unwavering commitment from the top is necessary to assure these programs are not only in place but are effectively enforced. A set of business ethics policies is not enough in and of itself. Readers should look for concrete figures on allocations to the staffing for these programs, training of employees, operation of anonymous hotlines for reporting unethical behavior, and funding for an ombudsman who can oversee the program. Inclusion of figures on breaches of ethics policies and their resolution can indicate a program that is carefully managed and is effectively monitored.

Although business ethics is important for all companies, it is more crucial in certain industries than others. In particular, controversies are likely to arise in industries involved in government contracting, such as construction, defense and natural resources extraction in the developing world.

Environmentalists
Among the key issues that may be of value to environmentalists, along with other stakeholders, as they read a CSR report are the following.

- **Energy efficiency and climate change:** Reductions in energy consumption and use of fossil fuels
- **Wastes and toxic emissions:** Systematic programs to reduce use of toxic chemicals in manufacturing and wastes sent to landfills
- **Life cycle design:** Consideration of all environmental implications of products from cradle to grave
- **Industry-specific concerns:** Identification of key environmental issues particular to the company’s industry

### Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative (EITI) was founded in 2003 with the help of the British government under Prime Minister Tony Blair. Its goal is to improve the transparency of payments by companies in the extractive industries (mining, oil and gas) to governments in the countries where they operate. For governments, such transparency helps develop a better investment climate, more stable governance and improved economic development. For companies, it helps avoid reputational and political risks. As of 2008, some 23 countries had signed up as candidates for full EITI participation.

- **Other key environmental issues:** Water, clean up liabilities, fines and spills, green procurement policies

**Energy efficiency and climate change**

**Reductions in energy consumption and use of fossil fuels:** Climate change – or global warming – is the overriding environmental issue of our time. Reducing energy use and finding alternatives to fossil fuels are key indicators that companies take climate risk seriously. For certain industries – such as transportation, energy and utilities – their very product lines force climate change to the top of the agenda. But for all companies the first step on the road to reductions and alternatives is to measure and report on:
• Total amount of energy use and/or greenhouse gas emissions, both absolute and normalized
• Percentage of energy derived from renewable energy sources
• Percentage of energy derived from non-renewable energy sources

The indication of progress on energy use is straightforward: less is good. Downward trends, both in absolute and normalized numbers, are a positive indicator.

A number of sophisticated protocols for measuring greenhouse gas emissions, sometimes known as the company’s “carbon footprint”, have been developed by the World Resources Institute and ISO (International Organization for Standardization), among others. Reference to the specific protocol used is helpful. But progress in becoming “carbon neutral” – which can be achieved through a combination of actual reductions and through programs that “offset” ongoing emissions – can be difficult to evaluate. What constitutes meaningful and effective offsets is debatable, since offsets represent only carbon neutrality, and don’t reduce a company’s actual emissions.

Readers will also find companies increasingly reporting on the use of energy derived from alternative and renewable sources. The specific sources here can be a concern, since no source of energy is without some controversy. Nuclear power, for example, provides carbon-emissions-free energy, but poses challenges controlling the proliferation of nuclear weapons technology, as well as the safe storage of high-level radioactive wastes. Many biofuels, such as ethanol derived from sugar or soybeans, are themselves energy intensive to produce. Sources such as solar, wind and wave power are among the least controversial.

Readers should distinguish between companies that have installed alternative energy at one or two facilities and those that have tackled the more difficult task of addressing alternative energy use across all of their operations.

Wastes and toxic emissions
Systematic programs to reduce use of toxic chemicals in manufacturing and wastes sent to landfills: Zero waste makes sense from both an environmental and a business point of view. Waste is a sign of inefficient operations, and can be a sign of poor management. Well-managed companies not only save money by reducing hazardous and solid waste, but also benefit the environment.

For companies that are heavy users of toxic chemicals, readers should expect to find data on reductions in use – often reported both on an absolute and normalized basis. Reports for companies that generate waste should quantify what percentage was recycled (the greater the better) and what percentage was disposed of and how.

Companies in dirty industries – refining, pulp and paper, commodity chemicals, pharmaceuticals, and adhesives and coatings, among others – must by U.S. law track their use and emissions of toxins and report on them to the federal government through the Toxics Release Inventory (TRI) database.
Since the late 1980s, most large industrial U.S. corporations have been required to report on their use of toxic chemicals in the workplace, and to what extent they are reused, recycled, and released into the environment, or otherwise disposed of. This comprehensive data is reported to the U.S. Environmental Protection Agency (EPA) through the Toxics Release Inventory (TRI). The TRI’s purpose is “to empower citizens, through information, to hold companies and local governments accountable in terms of how toxic chemicals are managed.” This data, although often challenging to compile and analyze, has provided a powerful incentive for corporations to manage and reduce their use of the most potentially harmful of these chemicals. Other countries have since established similar reporting requirements for toxic chemicals. Canada, for example, maintains its own National Pollutant Release Inventory.

Readers should take care in interpreting TRI data. The toxicity of chemicals used or released, not simply their volume, is of crucial importance and often not specified. Particularly important are reports on those chemicals most harmful to the environment such as ozone-depleting chemicals, PCBs and solvents (volatile organic compounds). Total elimination of toxic chemicals from the manufacturing process is preferable to their recycling, which is in turn better than their disposal as wastes by incineration or their release into the air or land.

Reductions in numbers reported under the TRI can come from slowdowns in business, sales of operations, or changes in product lines, as well as from environmental improvements. In addition, companies apparently in the same industry may have product lines so different that their TRI figures cannot be compared meaningfully. The clearer a company is on which chemicals it uses and is reporting on and the specific reasons for its

Climate risk disclosure

The Carbon Disclosure Project (CDP) encourages corporations around the world to monitor, measure and disclose their carbon emissions. As of 2009, some 475 major institutional investors with combined assets of $55 trillion had banded together under the banner of the CDP to query 3,700 companies through an annual survey. In 2008, the CDP received some 1,550 responses, which it maintains in a database that contains corporate greenhouse gas emissions data, emissions reduction targets and energy use, and managements’ view on the risks and opportunities of climate change.

In addition, in 2006 a coalition of institutional investors released their Global Framework of Climate Risk Disclosure – a statement of the four elements they consider crucial for proper assessment of corporate risk. These four elements are: companies’ greenhouse gas emissions; strategies for climate risk and emissions management; assessment of their physical risks from climate change; and assessment of their risks from climate change regulation.
progress or lack of progress in reductions, the more valuable the report will be.

**Life cycle design**

Consideration of all environmental implications of products from cradle to grave: All too often, companies externalize costs onto society because they fail to consider the environmental implications of the raw materials they purchase, the energy usage or harmful emissions of their products once in use, and the costs of disposing their products. It is generally a sign of a well-managed and thorough environmental program when firms take these life-cycle factors into account.

Readers should expect life cycle analyses from companies that manufacture products with substantial environmental implications in their use. For example, automobiles and washing machines have far greater environmental impact during their useful lives than during their manufacture.

**Industry-specific concerns**

Identification of key environmental issues particular to the company’s industry: The greatest environmental challenges companies face differ from industry to industry, and occasionally even within an industry. Readers should expect a company to directly address its greatest industry-specific environmental challenges.

For example, the use of cyanide in leaching is a major challenge specific to the gold mining industry. Sustainable forestry management is specific to the timber industry. Reducing the use of volatile organic compounds (solvents) is the most substantial environmental challenge faced by companies manufacturing products using adhesives and coatings.

Energy efficiency is among the most important issues for real estate companies. Fuel efficiency is the single greatest environmental challenge for automobile and trucking firms.

**Other key environmental issues**

Water, clean up liabilities, fines and spills, green procurement policies: Readers can also expect reporting on a wide range of additional environmental issues too numerous to cover fully here. Here are four of the more important areas:

1. Water will become among the most important issues of the 21st century as populations increase and fresh water supplies diminish. Its uses, and consequently its challenges, differ greatly from industry to industry. Paper companies consume huge quantities of water mixed with toxic chemicals in their pulping and bleaching processes. Agricultural firms draw on underground aquifers for irrigation. Beverage companies purify water and use it for consumption. Water utilities distribute it to the rich and poor. The specifics of the challenges vary, but the importance of the issue remains. Important work on the issue of water is being done under the auspices of organizations such as the Pacific Institute and the CEO Water Mandate.

2. Two aspects of a company’s record on environmental fines and penalties are also good indicators of its performance: size and frequency. A single small fine may not indicate substantial problems, but a pattern of fines, particularly large ones, is more troublesome.
In addition, readers should be aware of the differences between “fines” and penalties.” A fine is issued when a company is judged guilty. Penalties can be a part of settlements in which a company admits no guilt, but agrees to make a payment to settle the case.

The United States generally takes a top-down “command and control” approach to environmental regulation. A fine under $10,000 can be considered relatively small here, whereas such fines or penalties in another country might be viewed as considerable.

3. Similarly, the dollar figures reported by companies as their liabilities for hazardous waste clean up, particularly for Superfund sites, can be in the millions of dollars. These should not be confused with fines and penalties, as they represent the cost for cleaning up the disposal of hazardous wastes often from many decades ago when such disposal was unregulated. U.S. companies are required by law to report these hazardous waste remediation liabilities in their Form 10-Ks.

4. A green procurement policy – requiring subcontractors to document their environmental practices and favoring those with advanced programs – is another valuable indicator of a strong environmental program. Such policies are a particularly effective way of pressuring small companies to implement effective environmental programs. Such policies are currently more common in Japan and Europe than in the United States.

Thinking about life cycles
Campbell evaluates the social and environmental implications throughout the life cycle of its products in its 2008 CSR Report using a “from-farm-to-table” approach (pg. 17):
Baxter 2008 Environmental Financial Statement

Baxter International uses a unique format to show the actual monetary costs and savings from certain programs. The following table can be found in its 2008 Environmental Financial Statement.

<table>
<thead>
<tr>
<th>ENVIRONMENTAL COSTS (dollars in millions)</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
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<tr>
<td>BASIC PROGRAM</td>
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<td>CORPORATE ENVIRONMENTAL – GENERAL AND SHARED BUSINESS UNIT COSTS</td>
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<td>3.2</td>
<td>2.8</td>
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<tr>
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<td>REMEDIATION, WASTE AND OTHER RESPONSE TOTAL</td>
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<td>TOTAL ENVIRONMENTAL COSTS</td>
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<table>
<thead>
<tr>
<th>ENVIRONMENTAL INCOME, SAVINGS AND COST AVOIDANCE (dollars in millions; see Detailed Income, Savings and Cost Avoidance from 2008 Activities at right)</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
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<tbody>
<tr>
<td>FROM INITIATIVES IN STATED YEAR</td>
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<tr>
<td>REGULATED WASTE DISPOSAL</td>
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<td>NON-HAZARDOUS WASTE DISPOSAL</td>
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<td>0.0</td>
<td>(0.1)</td>
<td>0.2</td>
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<tr>
<td>NON-HAZARDOUS MATERIALS*</td>
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<td>1.5</td>
<td>(2.0)</td>
<td>5.0</td>
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<tr>
<td>RECYCLING (INCOME)</td>
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<tr>
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<td>4.2</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>WATER CONSERVATION</td>
<td>0.7</td>
<td>0.6</td>
<td>0.5</td>
<td>0.0</td>
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<tr>
<td>FROM INITIATIVES IN STATED YEAR TOTAL*</td>
<td>$11.9</td>
<td>$7.1</td>
<td>$5.6</td>
<td>$12.0</td>
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<td>AS A PERCENTAGE OF BASIC PROGRAM COSTS</td>
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<td>47%</td>
<td>38%</td>
<td>125%</td>
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<tr>
<td>COST AVOIDANCE FROM INITIATIVES STARTED IN THE SIX YEARS PRIOR TO AND REALIZED IN STATED YEAR (see Detailed Income, Savings and Cost Avoidance from 2008 Activities at right)</td>
<td>$40.0</td>
<td>$76.4</td>
<td>$82.1</td>
<td>$76.6</td>
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<tr>
<td>TOTAL ENVIRONMENTAL INCOME, SAVINGS AND COST AVOIDANCE IN STATED YEAR</td>
<td>$91.9</td>
<td>$83.5</td>
<td>$87.7</td>
<td>$92.6</td>
</tr>
</tbody>
</table>
Employees
Among the key issues that may be of value to employees, along with other stakeholders, as they read a CSR report are the following.

- **Health and safety:** Goal of zero fatalities and injuries
- **Union relations:** Respect for union rights and the conventions of the International Labor Organization
- **Wages, profit sharing and benefits:** Living wage, adequate benefits, and profit sharing or employee ownership
- **Diversity:** Promotion of women and minorities
- **Work/life balance:** Programs for employees to balance job demands with obligations to families and communities
- **Training and mentoring:** Systematic investment in human capital

Health and safety
**Goal of zero fatalities and injuries:** Employees, or those considering employment at a firm, may well want to know if a company takes the health and safety of its workers seriously. Zero fatalities and zero injuries are worthy goals and have been set for years now by industry leaders such as Alcoa and DuPont.

It is not always easy to understand and interpret safety data as published in CSR reports. Charts and tables that show a declining number of injuries are a positive indicator, but several complications can arise.

Injuries that result in lost work-time are more serious than those that are simply reportable. Of greatest concern are fatalities. Serious concern should be expressed from the highest level of the corporation about any fatalities, along with explanations of why they occurred and what the firm is doing to prevent their recurrence. Companies should also break out injury rates by full-time employees and by contractors working on site. Safety records for contractors are often worse than for regular employees, and a company that has comparable records for both is assuring that safety standards are being well enforced throughout its operations.
In addition, the numerical injury rate alone doesn’t tell if this represents a strong or a weak record. Comparison with the industry average will provide a better sense of how strong that record is. It is rare, however, to find a company that reports relative to industry averages when its record is below average. Industry averages are available from the Department of Labor web site at http://www.bls.gov/iif/home.htm, but even then, necessarily a strong positive. Small fines for minor OSHA violations are common and not a major concern. However, large fines, particularly for OSHA violations classified as “willful,” are not that frequent and usually indicate major problems. Because OSHA has limited resources, it does not inspect all plants at all companies and an absence of fines can simply indicate a lack of recent inspections.

OSHA VPP Star program

The U.S. Occupational Health and Safety Administration’s Voluntary Protection Program (VPP), also known as OSHA Star, is a voluntary, cooperative program between corporate management, labor and OSHA. OSHA awards VPP Star status to company sites that have demonstrated a consistent commitment to effective employee protection beyond the requirements of OSHA standards. In return, OSHA removes participants from programmed inspections and does not issue citations for standard violations that are promptly corrected.

Union relations

Respect union rights and the conventions of the International Labor Organization: If a company has strong relations with its unionized work force, and respects the rights of its workers around the world to unionize in accordance with the provisions of the International Labor Organization, it is a sign of a management that understands the value of human capital. By law U.S. companies must report the percentage of their work force that is unionized in their Form 10-Ks, so it is reasonable to expect a firm to address this issue in its CSR report, particularly if contract negotiations have recently taken place.

Union relations in the United States tend to
be less cooperative than in Europe, for example, where workers councils and union seats on boards with administrative oversight are more common – and in some countries are even required by law. As U.S. companies become more international in their operations, they can be expected to understand more fully the value unions contribute through the creation of a stable work force, the earning of a living wage, and the development of skilled labor. For example, Wal-Mart, a notoriously anti-union company in the United States, has acknowledged the value of a unionized work force in China.

**Wages, profit sharing, and benefits**

**Living wage, adequate benefits and profit sharing or employee ownership:** Data on wages, benefits and profit sharing is valuable to those concerned about the creation of stable, well-paying jobs and a firm’s investments in human capital. Finding these figures – aside from the legally required disclosure in proxy statements of the compensation of top officers – in U.S. CSR reports can be difficult. They appear more frequently in those of European firms.

The adequacy of company pension plans is of great concern in the United States, where federal Social Security benefits are relatively meager and individuals are now frequently expected to save voluntarily for retirement. In Australia, by contrast, individual retirement saving is now compulsory. U.S. companies are required to publish figures on the funding of their pension plans. The generosity of defined contribution plans (i.e., individual savings plans that pay out only what has been saved) is relatively easy to determine – the greater the company’s match for employees’ contributions, the more generous the plan is. Some companies provide no match at all, others match up to as much as 6 percent of salary. A 2-to-3 percent match is typical.

For defined benefit plans (i.e., company-managed plans with guaranteed payouts), the primary question is whether a company’s plan is adequately funded. Companies must disclose this information along with their financials, and a firm with a pension plan that is substantially underfunded may face future financial challenges, as well as ques-

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**The dangers of inadequate pension plans**

For those interested in background information on issues of the adequacy of retirement incomes for workers in the United States in coming years, the Center for Retirement Research at Boston College maintains a National Retirement Risk Index that assesses the percentage of U.S. workers at risk of not being able to maintain their current standard of living upon retirement. The percentage currently stands at 45 percent without including health care costs and approaches 61 percent if health care costs are explicitly accounted for.

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tions of poor employee morale. Accounting for defined benefit pension plans requires multiple assumptions on the part of the firm. A complete analysis of the adequacy of these plans needs to take into account the reasonableness of these assumptions.

In addition, reports including details of profit sharing or substantial stock ownership plans can indicate an interest in developing human capital on the part of management, although all workers can indicate a broad interest in employee development. Outside the United States, such plans are sometimes required by law. Profit sharing, for example, is mandated in France.

A further indication of a company that values its human capital is its policy on benefits for part-time or temporary workers. Although firms rarely include specifics on these ben-

Promoting employee stock ownership

The National Center for Employee Ownership researches and disseminates information on employee stock ownership plans (ESOPs), equity compensation plans such as stock options, and ownership culture. Employee stock ownership plans and reward schemes include stock ownership plans, stock purchase plans, 401(k) savings plans with matching components or tied to profit sharing schemes, and stock option plans. Stock option plans available only to CEOs and other top officials have been criticized by some recently as contributing to a short-term perspective in management. In addition, although through stock ownership employees can share in the upside of companies as they generate profits, they also incur the risk of losses if the company fails.

such programs can be used, less positively, as a substitute for decent base pay. Providing a means for employees to share in the upside of a company’s profits not only boosts morale in good times but provides an incentive for employees to better understand the business strategies and decisions of management.

Both profit-sharing and employee-ownership plans come in a variety of shapes and forms and are often made available only to certain select segments of the work force. Plans that go beyond top management to include benefits in their CSR reports, a company such as Starbucks that notes publicly that it provides benefits to these workers is notably proactive.

Diversity

Promotion of women and minorities: Diversity matters because a company that does not fully utilize the talents of its women and minorities is wasting valuable resources. It is not only financially unwise for a firm not to seek out its best talent, but it is fundamentally unfair not to provide all with the chance to realize their full potential. Moreover, for
many industries such as media and consumer products, diverse management can provide insights into markets that have historically been underserved.

In the United States, most large companies are required to report their records on the hiring and promotion of women and minorities to the Equal Employment Opportunity Commission on what is known as the EEO-1 Report. In a standardized format, these reports document the number and percentage of women and minorities at 10 levels in the firm. Although firms are not legally obliged to divulge them to the public (they are regarded as confidential), those that do so are providing notably useful data.

The most valuable of these figures are those indicating the percentage of women and minorities included as a percentage of the highest two job categories. Success at promotion to the First/Mid Level Officials and Managers level can indicate that women and minorities have crucial decision-making power and influence. The Executive/Senior Level Officials and Managers include only those in the very highest positions (top 10 to 20). Here distinguishing between line and staff positions is useful. Line positions have profit-and-loss responsibilities. Those holding these positions are potentially in line for promotions to CEO. Staff positions include more specialized functions such as general counsel, head of human resources, and chief financial officer.

**Representation of women and minorities**

General Electric used comparative data over time for its report on minorities in its GE 2007 Citizenship Report (pg. 110):
positions with considerable responsibility but without profit-and-loss responsibilities.

Similarly, on boards of directors a token woman or minority is unlikely to have significant influence. Three or four women or minorities can collectively bring greater weight to bear in crucial decisions. Inclusion of women and minorities who have business experience is also a sign of a commitment to give these groups substantial influence. In Japan it is rare for one woman to be included, but subpar in Norway where by law 40 percent of board members must be women.

Non-discrimination on the basis of sexual orientation is also a diversity issue of substantial importance. Readers should look for explicit statements by companies that it is their policy not to discriminate against gays or lesbians in the workplace. The availability of full benefits to gay couples and the active support for gay and lesbian organizations and mentoring programs in the workplace are indications of a strong program.

**Work/life balance**

Programs for employees to balance job demands with obligations to families and communities: Reports on a thorough work/life program often include data on: the ability of employees to use flexible work hours and workplace arrangements; generous parental leave programs; financial support for child and/or elder care; on-site child care centers and/or lactation rooms; and special childcare arrangements for parents who must travel or care for sick family members. In the United States implementation of these programs falls more directly on corporate shoulders than in Europe, where generous policies are often mandated by law.

Readers should look for a comprehensive set of such policies. If the company has a separate work/life program coordinator and reports on the number of employees actually using its programs, it is probably serious about the issue.

U.S. law requires that companies provide 12 weeks of unpaid maternity leave. It is one

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**Supporting a healthy work/family balance**

Some corporate programs go beyond their immediate employees to support a family-friendly infrastructure throughout their communities. For example, in the 1990s a number of forward-looking companies launched an extensive work/life program called American Business Collaborative for Quality Dependent Care that not only promoted the development of strong work/family programs for their employees but also supported the development of community-based childcare and eldercare resources. Among the chief corporate supporters of the program are Deloitte & Touche, ExxonMobil, IBM, Johnson & Johnson, and Texas Instruments.
of a handful of countries in the world not to provide for paid maternity leave. Some companies provide more thorough coverage with some paid maternity and paternity leave – generally speaking, anything over six weeks is generous for U.S. firms. Because some corporate cultures frown on actually taking this parental leave, especially by men, data on how many employees actually take part is valuable.

Flexible working hours and the ability to work from home are among the most valued of work/family benefits. Figures on the percentages of the work force for whom these options are available and who take advantage of them are a good indication of how supportive a corporate culture is.

These programs are valuable for all companies, but particularly so where work schedules are irregular (for example, hospitals), or where employees are routinely asked to work long hours (software development) or travel extensively (marketing).

Training and mentoring
Systematic investment in human capital: Reporting on a comprehensive and effective training program often includes data on: hours of training per employee; dollars allocated to training; availability of online resource centers – sometimes referred to as “universities”; and training requirements for continued employment. Although it can be difficult as a reader to evaluate the long-term effectiveness of these training programs from figures on hours or dollars devoted to them, a forward-looking management will invest substantially in this form of human capital development.

Occasionally, companies will discuss mentoring programs in their CSR reports. Mentoring – where senior managers are assigned to high potential employees – is a particularly effective form of career development and is especially crucial for women and minorities seeking to break the “glass ceiling” that still often persists at the highest levels of management.

Customers
Among the key issues that may be of particular value to customers, investors and other stakeholders, as they read a CSR report are the following:

- **Product quality and safety**: Measurements and reports on product quality programs and product safety controversies
- **Customer service**: Reports on customer satisfaction and marketing policies
- **Privacy**: Safeguards for customers’ private data
- **Ongoing communications**: Innovative programs to communicate with customers on CSR

Product quality and safety
**Measurements and reports on product quality programs and product safety controversies**: CSR reporting on product quality and safety in manufacturing companies can be a challenge for readers to evaluate both on the positive and the negative side. On the positive side, companies frequently point with pride to their certification under various quality standards such as ISO 9000 and Six Sigma programs and to product quality awards. Generally speaking, these are positive indicators, but readers should also look for a pattern of third-party validation of companies’ claims regarding successfully implemented quality
programs. (Certification to quality standards is discussed in more detail in Chapter Six.)

It is rare to find a company for which safety issues do not occasionally arise. For certain industries, such as automobiles, pharmaceuticals and toys, recalls occur regularly and vary widely in severity. These recalls can be front-page news, provoke major litigation and damage a firm’s public reputation, or they can be minor with few repercussions.

Companies often fail to address safety controversies in their CSR reports. Readers should generally consider it a positive when they do. A firm that fully and candidly addresses these issues is likely to be grappling with them internally and assuring that they do not recur.

In evaluating product safety issues, readers should consider a number of factors in assessing the negatives and positives of a case.

- Routine recalls should be distinguished from those of a more serious nature when physical harm was done. Bodily harm raises the level of seriousness and fatalities are the most serious concern.
- Companies that voluntarily initiate recalls may be proactively addressing potential problems before they occur. This can be viewed as a positive, not necessarily a cause for criticism. By contrast, recalls that are ordered by government regulators can indicate company intransigence or negligence.
- Recalls can either be handled well with prompt notification of all affected parties and generous compensation for harm caused, or poorly with slow and incomplete notification and poor service of recalled items.
- A company with a pattern of recalls may face serious quality challenges, while a single incident at a firm may be the result of a single accident rather than a more systematic failure.

Finding discussions of product recalls and safety issues in CSR reports, readers may be tempted to automatically consider this a concern. However, companies that openly discuss these often difficult issues should be looked upon favorably for their candor, and the specifics of the issues at stake and the adequacy of the company’s response should be considered carefully case by case.

Customer service

Reports on customer satisfaction and marketing policies: Non-manufacturing companies often report positive results from customer satisfaction surveys but it is difficult to evaluate the independence of these surveys, or their meaningfulness when the companies themselves conduct them. In addition, companies rarely report results that are negative or mediocre.

Occasionally companies will report on customer complaints, including the number of complaints received and the percentage of customers satisfied with the company’s handling of these complaints. This is generally a sign of a serious customer service program.

Readers will want to pay particular attention to quality and marketing issues for companies that market products to children under 12, due to children’s vulnerability to advertising claims and techniques. For example, companies marketing food products should
Customer satisfaction

In Ford’s 2007/08 Blueprint for Sustainability (pg. 46), satisfaction data is compiled by both internal and independent sources and put into a table which tracks statistics in a comparative format.

<table>
<thead>
<tr>
<th>ECONOMY</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial quality study – J.D. Power and Associates (5 months in service), problems per hundred vehicles</td>
<td>129</td>
<td>131</td>
<td>125</td>
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<tr>
<td>GQPS things gone wrong (TGW) (5 months in service), total things gone wrong per 1,000 vehicles²</td>
<td>1,846</td>
<td>1,586</td>
<td>1,405</td>
</tr>
<tr>
<td>GQPS customer satisfaction (5 months in service), percent satisfied¹</td>
<td>73</td>
<td>14</td>
<td>76</td>
</tr>
<tr>
<td>Sales satisfaction with dealer/retailer, Ford brand, U.S., percent completely satisfied³</td>
<td>80</td>
<td>91</td>
<td>92</td>
</tr>
<tr>
<td>Sales satisfaction with dealer/retailer, Ford brand, Europe, percent completely satisfied</td>
<td>80</td>
<td>91</td>
<td>90</td>
</tr>
<tr>
<td>Service satisfaction with dealer/retailer, Ford brand, U.S., percent completely satisfied⁴</td>
<td>66</td>
<td>70</td>
<td>72</td>
</tr>
<tr>
<td>Service satisfaction with dealer/retailer, Ford brand, Europe, percent completely satisfied²</td>
<td>96</td>
<td>97</td>
<td>98</td>
</tr>
<tr>
<td>Shareholder return – Bloomberg Total Return Analysis, percent</td>
<td>-45</td>
<td>-1</td>
<td>-15.4</td>
</tr>
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<table>
<thead>
<tr>
<th>SOCIETY</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee satisfaction, Pulse survey, overall, percent satisfied¹¹</td>
<td>62</td>
<td>62</td>
<td>64</td>
</tr>
<tr>
<td>Overall dealer attitude, Ford, relative ranking on a scale of 1-100 percent (summer/winter scoring)²²</td>
<td>70/72</td>
<td>70/64</td>
<td>41.99</td>
</tr>
<tr>
<td>Overall dealer attitude, Lincoln Mercury, relative ranking on a scale of 1-100 percent (summer/winter scoring)²²</td>
<td>64/46</td>
<td>64/46</td>
<td>35/56</td>
</tr>
<tr>
<td>U.S. safety recalls, number per calendar year²⁶</td>
<td>16</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>U.S. units recalled, number of million units²⁶</td>
<td>6.0</td>
<td>1.7</td>
<td>5.5</td>
</tr>
<tr>
<td>IHS Tip Safety Picks, number of vehicles³⁰</td>
<td>2</td>
<td>6</td>
<td>8</td>
</tr>
</tbody>
</table>

acknowledge the complexity of health issues and have clear advertising policies in place. The marketing of violent or online video games with addictive qualities is also an area where clear policies and limits are crucial.

Privacy

Safeguards for customers’ private data: For certain industries – such as financial services, credit ratings agencies, Internet services, retailing and health care – advances in information technology and data collection have made maintaining the privacy of personal information a top priority. Most of these companies now have privacy policies in place, many of which are required by law. Readers should look for CSR reports that go beyond simple listings of policies to reports on the training of employees in implementation of these policies and frank discussions of recent breaches and steps taken to prevent recurrence. The best news on privacy is no news – that is, no breaches of privacy have taken place.

Ongoing communications

Innovative programs to communicate with customers on CSR: As CSR reporting becomes the norm, corporations have become
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increasingly innovative in the media they use to report on their initiatives. These innovations are generally a sign of serious programs in place—or they can fall into the category of public relations. Companies are, for example, increasingly taking out advertisements in newspapers to publicize their positive CSR initiatives or to counter negative publicity when high-profile controversies arise. The more political or litigious an issue becomes the more difficult it often becomes to evaluate competing claims.

In addition, CSR reporting today is rapidly migrating beyond printed publication as online reporting increasingly takes hold. Moreover, companies such as Sun Microsystems, McDonalds and Green Mountain Coffee Roasters are experimenting with use of web-based tools such as blogs and social networking sites for communications with internal and external stakeholders.

CSR reporting is also making its way more directly to consumers through various labeling conventions for organic, fair trade products, energy efficient appliances and union-made goods. Consumers, like readers of CSR

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**Timberland’s social and environmental labeling**

In 2007, Timberland began to disclose certain environmental data directly to consumers by placing information in a Green Index (R) rating system label sticker directly on its footwear. The label measures environmental performance of specific shoes in three areas: climate impact, chemicals used and resource consumption. For more information, see http://www.timberland.com/GreenIndex2009. The following is a depiction of the Green Index (R) rating system label. A discussion of the label can be found at the aforementioned web page or on page 11 of Timberland’s 2007-2008 Corporate Responsibility Report.
reports, need to inform themselves about the basics of these labels, what information they convey and who issues them, in order to make the most of these messages. One particularly innovative use of labels that can be thought of as an extension of CSR reporting is Timberland’s Green Index (R) rating system label, which discloses measurements of each footwear product’s environmental impact in a sticker on the product.

Suppliers

Among the key issues that may be of value to suppliers, along with other stakeholders, as they read a CSR report are the following:

- **Labor standards**: Adequate monitoring of labor standards at its suppliers
- **General CSR standards**: Requirements that suppliers implement CSR programs

Labor standards

**Adequate monitoring of labor standards at its suppliers**: Since the 1990s, U.S. corporations have increasingly outsourced their manufacturing to developing countries to take advantage of low-cost labor. Critics of globalization have accused these companies of ignoring their vendors’ often subpar labor and environmental standards. Problems at these subcontractors can include the use of under-aged workers, bonded labor, excessive overtime, inadequate pay, poor housing and dangerous or hazardous working conditions.

Because monitoring working conditions at vendors is notoriously difficult, readers should look for more than a statement of company policies. Simple policy statements may have been forward-looking in the early 1990s. Today they are a standard feature at

The challenge of auditing suppliers

Two organizations that have tackled the substantial challenge of auditing their suppliers are Social Accountability International (SAI) and Verité.

Established in 1995, Verité works with companies and governments to document and improve working conditions in developing countries around the world. It provides background research on general labor conditions in countries; conducts in-depth investigations for companies on working conditions in their factories; campaigns for reforms on major challenges in working conditions such as debt-bonded contract labor; and helps set standards for the auditing of workplace facilities.

Social Accountability International maintains the SA 8000 standard for certification of workplace standards based on international norms promulgated by the International Labor Organization, the Universal Declaration of Human Rights and the U.N. Convention on the Rights of the Child. The standards cover child labor, forced labor, health and safety, freedom of association, discrimination and working hours, among other things. SAI trains auditors who in turn certify that a company’s facilities meet the SA 8000 standard.
most firms. That said, a commitment to freedom of association for unions is frequently omitted by U.S. firms from their vendor standards, and readers should credit companies that include it.

Among the key questions that readers should look for a strong CSR report to answer are the following.

- Is the company committed to developing long-term relations with its vendors and in investing in its suppliers to upgrade their manufacturing capabilities, their workplace safety practices and their environmental policies and procedures? Long-term relationships allow companies to work productively with vendors when problems arise. Abuses often arise when companies move their contracting rapidly from one vendor to another, often driven by the need to fill rush orders at home. With long-term relationships, companies can communicate more easily to vendors the seriousness of their commitment to adequate standards and work with them to correct problems as they arise.

### Supplier performance

Gap Inc. does a particularly good job of reporting on its auditing of suppliers. Its new rating system, fleshed out in its 2005/2006 Social Responsibility Report, is summarized in the following table.
• What type of auditing of labor and environmental standards does the firm perform? One company may simply tack audits onto its usual quality inspections. Another may have an in-house team devoted entirely to auditing labor and environmental conditions. A third may hire outside parties to conduct their audits. These independent third parties, devoted solely to such audits, such as Verité or SA-8000 auditors, generally have a reputation for being particularly thorough.

• Does the company report on the outcomes of audits, including data on the percentage of subcontractors that have passed inspections and remedial actions which were taken for those that didn’t, and how many vendors were ultimately terminated for noncompliance? A thoughtful vendor program will have both the flexibility to work through problems when they arise and the rigor to walk away from those situations where efforts to ameliorate conditions haven’t proven effective.

• Does the company operate its own facilities abroad? The conditions at company-owned facilities, which are likely to have the same quality, safety, and environmental standards as U.S.-based facilities, often differ substantially from those at outside vendors.

Working with outside vendors is particularly challenging for companies in the apparel, footwear, toy, agricultural products and retailing industries where use of low-cost labor is an essential part of the business model. Readers should expect companies in these industries to address their policies and practices with vendors in detail. In particular, discussions of how difficult situations were handled should be part of a thorough report.

**General CSR Standards: Requirements that suppliers implement**

**CSR programs:** Readers should also look for indications that companies go beyond monitoring the quality and labor standards of their suppliers and encourage them to adopt comprehensive environmental and other CSR initiatives. This spillover of CSR standards from larger firms to smaller companies helps solve the problem of how to encourage CSR initiatives at the hundreds of thousands of small- and medium-sized enterprises around the world. In addition, encouraging good CSR policies helps large corporations protect their own reputations by assuring that they are not doing business with vendors who are likely to encounter high-profile CSR controversies.

Two indications of rigorous programs that promote sustainability throughout a company’s supply chain are: 1) training programs for vendors to increase their adoption of CSR initiatives; and 2) preferential purchasing programs that favor suppliers with strong sustainability records.

**Communities**

Among the key issues that may be of particular value to community members, along with other stakeholders, as they read a CSR report are the following:

• **Giving:** Generous, innovative cash and in-kind giving programs
• **Volunteerism:** Matching volunteers’ skills with the specific community needs

• **Community investment and partnerships:** Collaboration with communities to improve the infrastructure – education, public transportation, environment, public health, social services

• **Community advisory panels:** Empowerment of communities to provide feedback suggestions

**Giving**

**Generous, innovative cash and in-kind giving programs:** Charitable giving is arguably the oldest and best established of CSR activities and a common form of community involvement. Corporations in the United States have a history of reporting on their community involvement that predates today’s CSR publications. It is the exception today to find a major firm that does not report at least a few details on philanthropic activities.

Well thought-out charitable giving programs can provide meaningful and much needed support to local communities and the environment. If poorly handled, they can be perceived as little more than self-serving public relations to enhance a firm’s public image without addressing its difficult challenges. For this reason, readers of CSR reports are sometimes tempted to discount the charitable giving sections of these reports. Contributions to the arts by a tobacco firm or to land conservancy by an oil company are dismissed as token gestures made to enhance public image. These sections therefore need to be assessed within the full context of the company’s reporting.

Among the indications of a meaningful charitable giving program are the following:

• **Generous giving** – The most common measurement of generosity is giving as a percentage of net earnings before taxes.

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**Principles for freedom of expression and privacy**

In October 2008, after two years of negotiations, a coalition of corporations, human rights and press freedom groups, investors and academics called the Global Network Initiative announced the launch of the Principles of Freedom of Expression and Privacy relating to information and communications technologies (ICT) companies. The principles provide general guidelines for the ICT industry on “how to respect, protect and advance user rights to freedom of expression and privacy, including when faced with government demands for censorship and disclosure of users’ personal information.” Among the large corporations subscribing to these principles are Google, Microsoft and Yahoo.
How to Read a Corporate Social Responsibility Report

Inventive philanthropy at Google

One of the more innovative corporate giving programs today is that of Google. When the company went public in 2004, it pledged 1 percent of its equity and profits in some form, as well as employee time, to Google.org, a nonprofit arm of the company committed to addressing global challenges such as the development of renewable energy and eradicating infectious diseases.

Google.org is a hybrid philanthropy that not only uses traditional grants, given through its foundation, but also invests in for-profit ventures, notably in the renewable energy arena. As of May 2008, Google.org had committed more than $85 million in grants and investments in support of its projects.

In certain industries, in-kind donations can be easily made. Information technology companies can donate last year’s computers or software; pharmaceutical companies can make drugs available at no cost or low cost. Restaurant and food product companies can distribute excess product to the needy. Figures on the dollar value of in-kind gifts should be treated with caution, however, as firms may assign to them a market value that is on the generous side.

Donations of intellectual property are another type of in-kind gift. Their value is particularly difficult to measure, but these gifts are often of substantial importance because of their ability to spread wealth widely. IBM, for example, has recently decided to make gener-
ally available some of its patents for energy efficiency and sustainability initiatives.

Volunteerism

**Matching volunteers’ skills with the specific community needs:** Many companies encourage employees to volunteer with nonprofit organizations in their communities. To identify companies that are maximizing the value of volunteer initiatives, readers should look for those that report on key elements of a systematically managed volunteer program such as the following:

- Community needs assessments
- Matching of employees’ skills with community needs
- Grants that supplement volunteer efforts
- Substantial (e.g., two to four days) paid time off for volunteers

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### Giving back to the community

The following chart from Starbucks 2008 Global Responsibility Report illustrates the types of donations made in 2008:

**Starbucks Donations Paid in Fiscal 2008: $14 Million**

- Corporate giving: **$4.6 Million**
- Starbucks contributions to The Starbucks Foundation: **$1.2 Million**
- Social projects in coffee communities*: **$1.6 Million**
- Product and in-kind donations: **$6.6 Million**

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*Represents the total amount Starbucks paid through some coffee contracts to fund various projects to improve coffeee-growing communities.
Community investment and partnerships
Collaboration with communities to improve the infrastructure — education, public transportation, environment, public health, social services: When corporations enter into long-term, collaborative relationships with nonprofits, programs and initiatives likely to provide substantial returns to communities often result. These efforts can involve multiple corporations banding together to tackle an issue of mutual concern, such as improving the quality of public school education, or they can be limited to a single company partnering with an NGO on a focused issue, such as improving the firm’s environmental performance.

The more systematic and comprehensive these partnerships are — and the more corporations that work on an equal footing with NGOs and governments in these partnerships — the more valuable results are likely to be, although the success of each must be evaluated case by case.

Community advisory panels
Empowerment of communities to provide feedback: Readers should also look for indications of open communication between corporations and the communities in which they operate. Such communication helps prevent controversies from arising. Advisory panels made up of community members can be one means of encouraging such communications. These panels are particularly important where a large production facility such as those operated by chemical, mining, or refining companies is likely to affect the environment within local communities. To be truly effective these panels must be representative of the whole community and include diverse and varied members of society.

Innovative partnerships
Two companies that have taken an innovative and thorough approach to partnerships to address social and environmental issues key to their goals are Green Mountain Coffee Roasters and IBM.

Green Mountain Coffee’s partnerships with nonprofit organizations help provide the farmers from which the company sources its coffee with a sustainable living. These nonprofit organizations include Root Capital, Sustainable Food Laboratory and Heifer International. In 2007, the company entered into an agreement with the government of Ethiopia to help individual coffee-growing farmers increase the return on their crops. From 2005 to 2007, it donated more than $1 million to coffee-growing communities through these programs.

IBM’s Reinventing Education initiative combines grants, consulting time and donations of technical expertise with school systems around the world to overcome barriers to school reform. IBM works to bring about broad-based systematic change in educational systems, particularly those changes that can best be enabled by technological innovations such as web-based tool kits designed to improve educational outcomes.
Governments
Among the key issues that may be of value to public officials and public policy analysts, investors, human rights activists, union members and other stakeholders, as they read a CSR report are the following:

- **Human rights**: Policies to address human rights concerns in countries with records of abuses

For some of the most problematic countries, Sudan and Burma for example, U.S. firms are prohibited by national law from doing business there. But for other regions where local conflicts prevail, indigenous peoples are present, or governments are under severe strain – parts of Indonesia, Zimbabwe, or the Amazon, for example – companies often face difficult choices regarding security, compensation to local populations, and explicit or implicit support by the company for the prevailing government.

Readers will find valuable open and frank acknowledgments by a company of the complications that it faces, of its perception of

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Business and human rights

The web site maintained by the Business and Human Rights Resource Center provides background on specific human rights issues as they relate to some 400 corporations, as well as general discussions of human rights issues as they have played out recently in most countries around the world.

It also houses materials on the ongoing work of Professor John Ruggie who, as special representative of the United Nations Secretary-General, is tackling the challenging question of what standards and enforcement mechanisms can appropriately be used in assessing the accountability of corporations in human rights concerns that arise in their daily business.

- **Taxes, lobbying and public policy**: Support for government by paying taxes and exercising restraint in influence over legislation

Human rights

**Policies to address human rights concerns in countries with records of abuses**: Those concerned about corporations’ records on human rights should understand that this complicated issue is playing out now within the context of the emerging field of international law. An increasing number of firms are facing litigation in the United States brought under the Alien Tort Claims Act of 1789. Furthermore, the United Nations is continuing to work to define the proper role of corporations in the context of international law and human rights.

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Readers will find valuable open and frank acknowledgments by a company of the complications that it faces, of its perception of
the relative risks and rewards in conducting operations in such regions, and of the steps it is taking to assure compliance with internationally recognized norms.

Issues that most frequently arise are relationships with indigenous peoples, land ownership and property rights, use of security forces, collaboration with governmental efforts to suppress dissent, and bribery and corruption. In particular, readers should expect corporations that have been involved in high-profile controversies to discuss these explicitly. Natural resource extraction industries, such as oil, natural gas, and mining, are most likely to encounter these concerns. Internet providers, computer manufacturers and telecommunications firms may face special challenges in countries where media censorship is common, most notably in China.

Taxes, lobbying and public policy
Support for government by paying taxes and exercising restraint in influence over legislation: It is also reasonable to expect companies to report on their lobbying policies and practices as well as their tax records. In particular, it is useful to understand if companies are lobbying for policies that contradict their public CSR positions, or are undercutting government’s general ability to serve the public interest by putting excessive pressure on legislatures or by avoiding their fair share of taxes.

Among the data readers should look for are:

- Taxes paid compared to the effective rate for their industry

Shell in Nigeria
For the past several decades Shell has faced an ongoing series of controversies related to its substantial oil and natural gas production in Nigeria. The Ogani people near its operations have accused the company’s pipelines and subsequent gas flaring of causing environmental damage. This has led to vandalism of company property and sometimes violent confrontations with local protesters. Despite ongoing efforts by Shell to address the social, environmental and financial issues raised by these operations, problems have persisted, including disputes with the Nigerian government over investments in the oil industry and payments from the operations there.

- Lobbying expenditures at national and local levels, expenditures on public issue advertising, and contributions to trade associations
- Subsidies and tax breaks received at national and local levels and what commitments they have made, either explicitly or implicitly, to obtain these credits

Until recently, U.S. corporations have steered away from this type of CSR reporting, in part because it often raises highly charged political issues.
Companies often list in their CSR reports a variety of recognitions, such as:

- Certification to various social and environmental standards
- SRI indexes, awards and “best” lists
- Endorsement of codes of conduct

Some awards and honors are more credible indicators of strong CSR programs than others.

**Certification to various social and environmental standards**

Readers will frequently encounter company reports on certification they have obtained for meeting social and environmental standards. The most common is quality certification (e.g., ISO 9000), but certification is also common for labor standards, environmental management systems, fair trade practices, sustainable forestry, organic farming and a host of other issues.

Certification generally indicates that the company has devoted substantial resources to the implementation of clearly defined initiatives. But these systems are not without their complications. Certification often applies to management systems as opposed to actual results. The certifying body audits a company’s management systems and verifies that it has adequate systems in place, but doesn’t certify that the company has used these systems effectively in practice.

In addition, certification is often done on the facility level, not company wide. Certification of labor and environmental standards at a single facility does not necessarily mean the same standards apply elsewhere. Readers should thus note what percentage of a company’s total facilities operations was certified.

Competing certification systems for the same issue often co-exist, some of which can be more strict or credible than others. Some are implemented by industry trade associations, some by governmental bodies, and still others by multi-stakeholder organizations that have grown out of efforts by nongovernmental organizations to improve company practices. In general, certifications by multistakeholder organizations have a level of rigor and oversight that lend them additional credibility.

Among the most respected of the certification bodies is the International Organization for Standardization (ISO). It has two certification systems often cited in CSR reports.

- The **ISO 9000** standard relates to quality procedures. A company’s facilities with this certification have implemented a rigorous set of quality processes for manufacturing or customer service.

- The **ISO 14000** standard certifies a company’s facilities against a set of environmental process management protocols.

An additional ISO project under way is the development of the ISO 26000 standard for CSR programs. The standard is scheduled to
be published in 2010. Unlike ISO 9000 or ISO 14000, it will not include specific requirements for CSR certification but is intended to provide general guidelines and to encourage CSR practices without hindering creativity and the development of innovative approaches.

Six Sigma programs, which address quality issues, are not technically certification schemes but are instead a rigorous methodology for eliminating manufacturing defects, relying heavily on measurement and data analysis.

The timber industry provides an interesting example of competing certification systems for the sustainable management of forest lands.

- FSC certification is provided by the Forest Stewardship Council, which was founded in 1993 and is run as an independent multistakeholder nonprofit organization. It positions itself as one of the more rigorous certification standards and addresses indigenous rights, labor rights and the multiple-use benefits of forest management. It is used widely around the world.

- In the United States, trade associations such as the American Forest & Paper Association have evolved a series of principles and guidelines for forest management under the rubric of the Sustainable Forestry Initiative (SFI). In 1998, the SFI program added options that allowed first-, second-, and third-party certification to assure compliance with the standards.

- An example of a governmental forestry standard is the U.K. Forestry Standard, published in January 1998. The standard takes into account various aspects of sustainable forest management: soils, water, air, production, biological diversity, work force, communities, heritage and landscapes.

A number of certification programs for employment practices and safety are often cited by companies. Two of these – SA 8000 and the OSHA Star Voluntary Protection Program – were described previously. Several others exist. For example, in 1999 the Fair Labor Association, a coalition of companies, colleges, and nonprofit organizations, created its Workplace Code of Conduct. The standard covers forced labor, child labor, harassment, abuse, nondiscrimination, health and safety, freedom of association/collective bargaining, wages and benefits, hours of work and overtime compensation. The Code of Conduct also relies on external monitoring for implementation.

Certifications to sustainability standards are also increasingly numerous. The Marine Stewardship Council (MSC), for example, certifies sustainable fishing policies and practices. Founded in 1997, MSC’s goal is to improve commercial fishing standards, while preventing depletion of worldwide fishing stocks and enabling consumers to support sustainable fishing by providing an “ecolabel.” As with other certification programs, knowing the percentage of a company’s total product that achieves MSC standards is useful in assessing the seriousness of its commitments.

SRI indexes, “best” lists, and awards
Readers will frequently find that companies report their inclusion in SRI (socially responsible investing) indexes. Inclusion in SRI indexes is usually a sign of a positive overall CSR record. However, the criteria for inclusion in these indexes vary substantially and a company may appear in one, but not in an
Other. See the accompanying box for a discussion of some of the differences in approaches among these indexes.

Among the most widely cited of these SRI indexes are the Dow Jones Global Sustainability indexes, the FTSE4Good Index global series, the KLD Research & Analytics indexes, the Jantzi Social Index of Canadian companies, and the JSE Socially Responsible Investment Index in South Africa.

These indexes are most usually maintained by SRI research firms or national stock exchanges. They are intended both to encourage CSR among corporations and to serve as the basis for financial products. They tend to contain substantial numbers of companies across multiple industries, and can consequently include companies with a combination of strong CSR initiatives and controversies. Readers will also find companies listed in their reports various awards received. The most widely recognized and respected awards can be viewed as a sign of exceptional efforts. For example, a Pulitzer Prize in the newspaper industry is a clear sign of product quality. Similarly, when the U.S. Environmental Protection Agency designates a company its Energy Star Partner of the Year, it is safe to assume that the company has initiated serious energy efficiency programs. Numerous less widely recognized awards also exist and should be viewed with caution by readers, as they may or may not represent substantial CSR efforts.

Companies frequently cite their inclusion in lists of “best companies to work for.” The most widely recognized is published by Fortune magazine, although other specialized lists are published of companies with workplaces that are notably supportive of women.

### Three approaches to sustainability indexing

**Dow Jones Sustainability Indexes** are maintained by SAM Group. Each year SAM asks the 2,500 largest companies in Dow Jones Global Indexes to participate in a sustainability assessment process and scores all those that choose to participate. It then includes the top sustainability performers in each industry relative to their industry peers, in what is usually referred to as a “best-of-class” approach. This approach can include, for example, the best tobacco or military contracting company, companies that might not be included in other SRI Indexes.

**FTSE4Good Index** global series includes all companies that meet certain corporate social responsibility criteria, after excluding companies in tobacco, nuclear weapons and nuclear power. Companies qualify for the Index by passing a series of threshold tests on issues including environmental sustainability, human rights, supply chain labor standards, and bribery. An absolute level of performance against each criterion determines whether a company will be included. Industry representation is not a concern.

**FTSE KLD 400 Social Index** maintained by KLD Research & Analytics is set at 400 companies at all times, does not include companies with substantial involvement in alcohol, gambling, tobacco, military contracting or nuclear power, and includes companies with positive stories on the environment, employee relations, community involvement and other stakeholder relations. Companies’ overall positives and negatives are balanced against each other in the selection process, with representation for all included industries.
blacks, Hispanics and the disabled. These are generally a credible indication of substantial CSR efforts in employee relations.

Endorsement of codes of conduct
When companies report that they have endorsed various codes of conduct, this can also be viewed by readers as a positive sign. Simple endorsement of a code, however, does not necessarily carry with it the rigor of a certification process. These codes – or principles as they are often called – are proliferating rapidly as interest in CSR grows around the world. Some are general and apply to all companies – the U.N. Global Compact, for example. Others focus on issues of specific concern – the CERES Principles or the Natural Step for the environment, or the Voluntary Principles for Security and Human Rights. Still others apply to specific industries.

For an in-depth study of 29 of these codes, see “The Corporate Responsibility Code Book” by Deborah Leipziger. Because the array of principles is so extensive, readers will need some basic background to assess their significance.

U.N. Global Compact
The U.N. Global Compact, founded in 2000, encourages responsible business practices and seeks to align them with the United Nations’ goals, particularly the Millennium Development Goals. Endorsers of the Global Compact pledge to align their operations with 10 principles addressing human rights, labor, environment and anti-corruption. The compact promotes partnerships among business, government, civil society and labor and works to eliminate corruption, protect the environment and address poverty. As of 2009 it had approximately 5,100 participants.

Industry specific codes of conduct
Among examples of the many industry-specific codes of conduct and certification processes that are being developed to promote CSR practices are the following:

The Kimberley Process brings together governments, industries and civil society initiatives to stem the flow of conflict diamonds – rough diamonds used by rebel movements to finance civil wars. As of November 2008, the Kimberley Process had 49 members.

The Roundtable on Sustainable Palm Oil (RSPO) standards have been developed by companies involved in the production and consumption of palm oil. These standards encourage the environmentally responsible production of palm oil and socially beneficial management and operations within the industry.

The World Cocoa Foundation has worked with West African governments, nonprofit organizations and labor experts to develop a certification process for the farming of cocoa, including principles to ensure that responsible labor practices are used, to address child labor issues and to encourage sustainable farming practices.
Chapter Seven

Systems for reporting and evaluating reports, innovation in CSR reporting

For those interested in deepening their understanding of what makes a thorough and complete CSR report, it can be helpful to review criteria that organizations consulting to corporations on the writing of CSR reports have established as best practice, and judging standards set by organizations that make awards for the “best” CSR reports.

Below are summarized three sets of best practices for writing CSR reports as established by AccountAbility, the Global Reporting Initiative, and SustainAbility; and two sets of criteria for judging “best” CSR reports as laid out by ACCA/CERES and CorporateRegister.com. See also the bibliography in Appendix A for further readings.

Three standards for CSR reporting

AccountAbility 1000 Framework – AccountAbility is an international think tank based in London that seeks to increase the accountability of corporations and other organizations to society. The heart of its work is the AA1000 series of standards that help define for organizations what it means to be accountable, responsible and sustainable. Its AA1000APS series provides a framework for establishing and reporting on sustainability and responsibility programs. AccountAbility has also developed a framework for auditing such programs (AA1000AS) and for stakeholder engagement (AA1000ES). The AA1000APS series is designed to be used by corporations, as well as nonprofit and governmental organizations. For credible CSR programs, AccountAbility establishes three basic principles:

- **Inclusiveness and completeness**: A company understands and engages with all stakeholders affected by, or who themselves affect, the corporation and reports accurately on these impacts.
- **Materiality**: A company develops a balanced understanding of, and reasonable prioritization for action on, all issues that “influence the decisions, actions, and performance of an organization and its stakeholders.”
- **Responsiveness**: A company responds to, and communicates with, its stakeholders.

These three principles provide a framework that is flexible and allows corporations to tailor their CSR programs and reporting to the issues most core to their vision of themselves and their role in society. The AA1000 principles allow – indeed, encourage – corporations to choose for themselves the CSR programs on which they report.

Global Reporting Initiative – Headquartered in the Netherlands, the Global Reporting Initiative (GRI) is a worldwide, multistakeholder network of experts on CSR and related issues. Among the GRI’s primary functions is the maintenance of a CSR “reporting framework.” The framework consists of a set of guidelines that has been developed since the late 1990s through a consensus process
including representatives from business, civil society, labor and professional institutions.

The GRI Sustainability Reporting Framework – the most recent of which are the G3 Guidelines issued in 2006 – provide both principles on the framework for reporting and guidance on reporting on specific issues. Among its principles are those on:

- **Content**: How to establish materiality, stakeholder inclusiveness, sustainability context, and completeness
- **Quality**: How to achieve balance, comparability, accuracy, timeliness, reliability and clarity
- **Boundaries**: How to determine how much reporting to do on which issues

The G3 Guidelines also provide details on which specific indicators companies should report on in the following areas:

- Economic and financial performance
- Environmental affairs
- Human rights issues
- Labor relations
- Product quality and safety
- Interrelations with government and community

The GRI has developed protocols and guidance for reporting against a series of almost 100 indicators within these six areas. In addition, it has developed specialized supplements on CSR reporting for industries including: airlines, apparel and footwear, automotive, construction and real estate, electric utilities, financial services, food processing, logistics and transportation, mining and metals; and telecommunications. These guidelines highlight issues that are of particular importance to companies in each of these industries.

**SustainAbility Global Reporters Methodology** – SustainAbility, based in London, specializes in working with corporations on CSR reporting and stakeholder engagement. In particular, it works with companies in the chemical, energy, finance, food and beverage, health care, and knowledge (IT and media) industries.

It publishes a biannual benchmark survey in conjunction with the United Nations on the state of corporate sustainability reporting. In 2006 it published its Global Reporters Methodology, which encapsulates the methodology it developed for scoring the adequacy of sustainability reporting. This scoring system, informed by the work of the GRI, scores companies on numerous indicators in four areas:

- **Governance**: How well has the company identified the key sustainability issues and challenges that it faces, clearly articulated its values and their relationship to its business strategy, incorporated them into its governance, risk management and future business directions, and communicated them from the CEO level on down to its stakeholders?
- **Management**: How well has the company developed sustainability policies and practices for its relations with suppliers, its engagement with stakeholders, its training of employees, its public policy initiatives, its leadership within its industry, its philanthropy and its investor relations?
- **Presentation**: How well has the company communicated on its alignment of sustainability with business strategy, measured its sustainability performance, set sustainability goals, and taken its sustainability issues beyond just what is legally required of it?
• **Assurance**: How thoroughly has the company made use of third-party auditors for its sustainability reporting, how clear is it on its assurance standards, and how accessible is the information it provides?

**Two sets of criteria for awards for best CSR reporting**

A second source for guidelines on what makes for good CSR reporting is the judging criteria for various awards programs that have been established for CSR reporting. Some of the most prominent of these are the annual awards given by ACCA around the world in conjunction with local groups. In North America, ACCA joins with CERES.

**ACCA-CERES Sustainability Reporting Awards:**
The Association of Chartered Certified Accountants (ACCA), based in the United Kingdom, has for many years partnered with different organizations around the world to give annual awards for best CSR reports. In North America, it partners with CERES, a network of investors and environmentalists focusing on climate change and other sustainability issues. The criteria for their annual CSR awards are divided into three categories:

- **Completeness**, which is given a 40 percent weight in scoring and includes considerations of materiality, stakeholder inclusion, strategy, and organizational context
- **Credibility**, which is given a 35 percent weight and includes considerations of management process, stakeholder inclusion, governance, performance and assurance
- **Communications**, which is given a 25 percent weight and includes considerations of presentation, stakeholder inclusion and structure

The 2008 winners of the ACCA North America-CERES Sustainability Reporting Awards included General Electric, Seventh Generation, Ball Corporation, Symantec and Dell.

**CorporateRegister.com Corporate Responsibility Reporting Awards**: CorporateRegister.com is an online resource center devoted to tracking and analyzing corporate CSR reports. In 2007 CorporateRegister.com launched its first annual online global Corporate Responsibility Reporting Awards (CRRA). Almost 300 corporations submitted their CSR reports for consideration. Judging was done by CorporateRegister.com members from a variety of backgrounds. The judges were asked to evaluate the reports on five general criteria:

- **Content**
- **Communication**
- **Credibility**
- **Commitment**
- **Comparability**

CorporateRegister.com created specialized categories of reporting in addition to its award for best overall report. Four of these categories reflect aspects of CSR reporting that are particularly challenging to execute well:

- **Creativity in communications**
- **Relevance and materiality**
- **Openness and honesty**
- **Credibility through assurance**

Among the U.S. corporations that placed in the top 10 overall for the 2008 awards were Coca-Cola Enterprises (1) for Creativity in Communications; Coca-Cola (4), Dell (5), Ford (6), and General Electric (7) for Relevance and Materiality; and Coca-Cola (2) and Dell (3) for Best Report.
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The Boston College Center for Corporate Citizenship
The Boston College Center for Corporate Citizenship is a membership-based research organization associated with the Carroll School of Management. It is committed to helping business leverage its social, economic and human assets to ensure both its success and a more just and sustainable world. As a leading resource on corporate citizenship, the Center works with global corporations to help them define, plan and operationalize their corporate citizenship. Through the power of research, management and leadership programs, and the insights of its 350 corporate members, the Center creates knowledge, value, and demand for corporate citizenship. www.BCCorporateCitizenship.org

Institute for Responsible Investment
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