Article No 1

CSR; JOURNEY FROM PHILANTHROPY TO REPORTING: A GLOBAL OVERVIEW

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Abstract: We as participants and stakeholders at various platforms have come a long way to address and experience CSR. Earlier where CSR was just a concept or idea, where businesses used to invest forcefully either legally or obligatory now has become a source of sustainable competitive advantage. Expectations of the stakeholders have changed from "tell me" to "show me" to "prove me". The businesses that are following Sustainability as a new trajectory to growth are finding it inevitable to incorporate and include a wide range of stakeholders and communicate the social and environmental impacts of their business with this set of stakeholders.

This paper highlights the evolution of CSR from a concept to a tool of attaining competitive advantage and the importance of Sustainability Reporting. We also call it Non-Financial Reporting (NFR), which is an evidence of commitment of businesses towards society. And of course, it serves a pivotal role as a business strategy.

Key Words: Application Level, CSR, Environmental, NFR, Reporting

Introduction: Corporate Social Responsibility is an emerging field which has attracted increased attention in recent years, a development which displays a changing mindset about the role and responsibilities of the for-profit sector. This paper looks at where Corporate Social Responsibility (CSR) is today, and what will be its future in terms of who is involved, how and why. As businesses turn their eye towards the many stakeholders involved in their activities, and the public discovers its role in keeping those with financial power accountable, a field has emerged around the definitions, methods and standards for the relationship between corporations and their environments. At this point, it is important to develop an initial map of this field to highlight the development that has taken place, the resources now at hand, and the challenges that remain to be confronted.

The first task is to place CSR in the broader context of philanthropy. There are many definitions of philanthropy, some linguistic in nature, some tracing back to the Greek Classics, some grounded in religious principles. The root of the word suggests a love for mankind; and the responsibility to share one's possessions with others has been a central component of all major religions for thousands of years. On the practical level, however, it may be most helpful to utilize a simple definition: "Philanthropy is the voluntary capture of private wealth for public purposes". While philanthropy primarily connotes the distribution of financial wealth, it importantly includes non-financial components such as gifts-in-kind, voluntary services and knowledge.

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Philanthropy comes in two broad categories, individual - whether the sums are large or small - and organized philanthropy. Some forms of philanthropy may be either individual or organized, such as faith-based philanthropy, while other forms, such as giving circles, essentially form a hybrid between individual and organized giving. These forms of giving have existed for thousands of years and in all parts of the world. Philanthropy is not a modern invention, nor was it ever solely a western concept. It existed well before the founding of United States and long before Europe was broken down into a cluster of nation-states. But it is true that each society puts its mark on this work in progress called philanthropy.

Recently, vehicles for social investing have emerged which try to apply business principles and/or venture capital practices to the world of philanthropy. All of these changes have affected the traditional form of the independent foundation, which has begun taking account of new ideas such as those that impose a 'sunset' provision on the life of the foundation or new donors that believe you should "give while you live" and let others do the same for their time. Both of those notions have undermined the traditional wisdom that foundations should guard their assets in perpetuity. Finally, there is Corporate Social Responsibility, a category of organized philanthropy to which we will now turn.

Evolution of the concept : The phrase Corporate Social Responsibility was coined in 1953 with the publication of Bowen's 'Social Responsibility of Businessmen', which posed the question 'what responsibilities to society can business people be reasonably expected to assume?' Writing on the subject in the 1960s expanded the definition, suggesting that beyond legal obligations companies had certain responsibilities to society20. In 1984, the celebrated management consultant Peter Drucker wrote about the imperative to turn social problems into economic opportunities. Throughout the 70s and 80s academic discussion of the concept of CSR grew, but the first company to actually publish a social report was Ben and Jerry's in 1989, and the first major company was Shell in 1998.

The first international code of conduct: In the late 70's both the Organization of Economic Co- operation and Development (OECD), and the United Nations Centre on Transnational Corporations (UNCTC) began developing codes of conduct in an attempt to control different aspects of corporate globalization. In 1976, the OECD, a grouping of 30 powerful industrialized countries, recognizing the complications associated with companies operating across borders, established a set of guidelines to ease the workings of globalization; setting the 'rules of the game' for foreign direct investment, and creating an atmosphere of confidence and predictability in overseas corporations. The OECD 'Guidelines for Multinational Enterprises' covered areas such as accounting, tax payments, and operating in accordance with local laws. The guidelines are aimed at countries rather than companies, and compliance with them can be important for gaining listings in certain stock exchanges and export credits. The rise in anti-corporate activism over environmental and human rights issues made a shift in corporate attitudes towards social and environmental issues essential. The 70s and 80s saw major international

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boycotts of companies investing in South Africa, notably Barclays Bank, and the Nestlé boycott over the company's aggressive milk formula marketing strategies in the global South. This period was typified by confrontational campaigning that forced change from companies by attacking the brand. In the 1990s corporate lobbying effectively undermined attempts to regulate their activities at a global level. Instead it achieved an extension of corporate power both logistically, through improved transport and communications, and legally, through international agreements such as the General Agreement on Trade in Services (GATS), and the Trade Related Intellectual Property Rights (TRIPS), which extended and enshrined rights for corporations.

De-railing the Earth Summit: The 1992 Earth Summit in Rio was a key moment in the evolution of CSR as corporate involvement succeeded in impeding the Summit's ambitious task to 'find ways to halt the destruction of irreplaceable natural resources and pollution of the planet. During the buildup, proposals put forward by Sweden and Norway for regulation of multinationals, based on the work of UNCTC, were crushed in favor of voluntary corporate environmentalism.

The level of corporate involvement in the summit was unprecedented, with a coalition of 48 companies formed specifically to influence its outcomes. This new coalition, the Business Council for Sustainable Development (BCSD, later to become the World Business Council on Sustainable Development WBCSD) was established by Swedish millionaire Stephan Schmidheiny, at the invitation of Maurice Strong, the chair of the Summit. The BCSD and International Chamber of Commerce (ICC) took a tandem approach which effectively shifted the debate. From one side the ICC attacked any measures that moved towards corporate regulation, and the BCSD trumpeted the 'changing course of industry' towards voluntary self-regulation. This type of strategy has come to typify corporate lobbying against progressive regulation.

Shell's PR disaster and the turning point for CSR: The anti-corporate backlash reached a climax in 1995, as the spotlight turned on Shell. That year the company stood accused of complicity in the execution of Ken Saro Wiwa and eight other activists in Nigeria, as well as being hounded by Greenpeace over the decision to sink the Brent Spar oil platform. Shell temporarily lost the confidence of investors and the public. Shell's annus horribilis was a sign of things to come and woke up many in the business world to the importance of their public reputations and the ability of campaigners to damage them. With their license to operate on the line, a strategy to convince the public that corporations played an important and meaningful role in society was essential. Capitalism had to be given a human face and that was the step towards CSR.

Shell spent £20 million on its PR offensive to rebuild its reputation, contracting PR company Fishburn Hedges to co- ordinate its strategy. Shell published a statement of business principles outlining its core values of 'honesty, integrity and respect for people'. The company's strategy focused on the 'magic keys' - ‘openness and dialogue’, pioneering the practice of producing CSR reports with its 'Profit and Principles - Does there have to be a choice? The Shell Report' in 1998. The report was produced by

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Associates in Advertising and endorsed by the environmental consultancy Sustainability. The involvement of Sustainability, who had previously been critical of Shell, was key to the re-brand. The production of the report was coupled with a global advertising campaign focusing on environmental issues and a new website encouraging stakeholders to 'Tell Shell', enabling the company to appear to involve the community in its decision-making whilst making no definite commitments. The strategy was successful in rebuilding the company's reputation amongst key opinion formers and decision makers.

Forms of CORPORATE SOCIAL RESPONSIBILITY: Corporate Social Responsibility (CSR) has undergone significant changes in the past several decades. A perspective on how far the CSR concept has advanced is provided by two examples, one from 1970 and the other from 2002. In the earlier instance, Nobel Prize-winning conservative economist Milton Friedman wrote that 'corporate social responsibility, and the nonsense spoken in its name by influential and prestigious businessmen, does clearly harm the foundations of a free society.' Friedman asserted that the single-minded function of corporate managers is to serve the financial interest of the firms' owners. Thirty-two years later, the PricewaterhouseCoopers Sixth Annual Global CEO Survey of nearly 1000 chief executives from Europe, Asia and the Americas found a very different corporate environment. The survey noted that 71 percent of CEO's would sacrifice short-term profitability in exchange for long-term shareholder value when implementing a CSR program.

While Friedman's view has theoretical merit, and should not be dismissed lightly, that position is no longer widely shared by the global business leaders of the 21st century. Today's visionary business leaders advocate a concept of multiple obligations to a broad range of *stakeholders* in their enterprises—including not only stock owners but also such constituencies as employees, host communities, customers, government bodies, civil society groups, media, even future generations.

Let us pose a tentative definition of Corporate Social Responsibility. CSR consists of the voluntary activities of a company, often at the risk of short-term adverse effects on profitability, but with the expectation of enhanced long-term shareholder value. CSR is intended to produce benefit for society. Unlike in some forms of individual or institutional philanthropy, however, it can be argued that altruism is not the primary motivation. Ultimately, CSR is assumed to be 'good for business' and good for society.

First, a corporation can set up an independent corporate foundation to receive annual shares of profit or, in some cases, choose to endow the foundation's work. In the United States, of the more than 70,000 foundations of all types, 1,000 are corporate. A number of corporate foundations are emerging in Egypt and around the Arab region. It has been noted that corporate foundations are often professionally managed and tend to have a more formed substantive agenda than independent foundations in general; they can also be more stable than other CSR forms mentioned below.

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Second, and perhaps the most prevalent model of corporate social action is to conduct a corporate giving program where each year an agreed upon amount is channeled from the corporation to its social giving program. It is important to note that what is donated might consist of financial assets or it might consist of donations of equipment and supplies. Many prefer this model because it enhances the corporation's control over its giving, but it may also encompass a greater degree of volatility as managers and priorities shift.

A third model (which may be concurrent with the second) is to run a social giving program through the public affairs departments of the corporation. This is where one finds the technique of 'cause-related marketing' most often employed. A sportswear company might sponsor sporting events, or a soap company promote hygiene awareness. While cause-related marketing aligns the business purpose with the social purpose of a corporation, it tends to be the narrowest approach to CSR and suffers from a growing consumer cynicism about who benefits from the effort.

A fourth CSR approach is to put the philanthropic interests of the corporation's employees at the center of the giving program rather than those of the corporation's senior management. Employee matching gift programs are one such vehicle, where the employee makes the choice and the corporation matches the employee contribution - often two or three-fold.

A fifth way of engaging in CSR, and the one that is emerging as the currently most favored way of thinking about social responsibility, is to infuse the values of CSR into the everyday policies and behavior of the corporation itself. For example, a company might agree to voluntarily comply with the standards set up to proscribe forced or child labor.

As impressive as some of these 'evolved' CSR programs are, it needs to be acknowledged that there are daunting social, environmental and public welfare challenges in today's world that no company acting voluntarily can overcome. Meaningful reductions in greenhouse gases, corrupt business practices, human trafficking, or reliance on fossil fuel depend on the actions of national governments and international bodies, the institutions of civil society as well as the corporate sector. Nevertheless, the participation of the private sector, with its business skills and assets, is a major step in forming the kinds of partnerships that will ultimately be needed.

Over the past 20 years, multinational companies (MNCs) have made important changes to their corporate social responsibility (CSR) policy. There has been a marked shift from the past, when CSR activities were unrelated to the company's core business and largely reactive, attempting to stem or prevent criticism rather than promote real development. Companies have begun approaching CSR in a more strategic way, recognizing that aligning these projects with their business model and goals can effectively improve a company's competitive advantage. In doing so, MNCs have increasingly leveraged their core assets including their supply chains, sourcing, human resources, technology and

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innovation, access to markets, and the global reach of their companies. There has been an accompanying shift in the perception of CSR. In the past, there were many critics who argued that a company's sole responsibility was to provide value to its shareholders. They argued that CSR ran contrary to the interest of the company and by extension to the shareholders. The 1990s saw CSR become an established industry with major companies such as PricewaterhouseCoopers, KPMG and Burson Marsteller entering the CSR service provision market. New consultancies, such as Sustainability (1989), Business for Social Responsibility (1992) and CSR Europe(1996), also sprang up over this period, all promising to protect industry from protest. Specialist university research centers and the CSR conferencing circuit also emerged in the late 90s. Similarly CSR evolved beyond simple codes of conduct and reporting to include more extensive dialogue with stakeholders, NGO engagement and 'multi-stakeholder initiatives' such as the Ethical Trading Initiative (1993) and the Forest Stewardship Council (1998), bringing together companies, NGOs and in some cases governments. Similarly trade unions began negotiating and signing global framework agreements.

Enron and a failed move towards mandatory social and environmental reporting in the UK: In 2001, the collapse of Enron, once a paragon of CSR, showed just how deeply a corporation's claims of social responsibility can differ from the reality. As Joel Bakan argues in The Corporation, 'Enron's story... suggests, at a minimum, that skepticism about corporate social responsibility is well warranted.

Enron's collapse, and the mistrust of corporations that the whole saga galvanised in the public consciousness, led to some soul-searching within the CSR movement. However, much of the public discussion centred on protecting investors, and the main concrete change brought about by the episode was the introduction of the Sarbanes Oxley Act in the USA. This has tightened up accounting regulations and introduced new reporting standards which include some aspects of non-financial risk reporting, but no substantive change on the issue of companies' wider social impacts.

From CSR to corporate accountability: The 2002 World Summit on Sustainable Development (WSSD) marked the crowning of CSR. Friends of the Earth led calls for a Convention on Corporate Accountability, instead the summit delivered much the same outcome as Rio, with over 280 'new' partnerships between government and industry announced as 'outcomes' of the summit, the first time such initiatives have been endorsed in this way. Christian Aid has documented the way in which discussion of the issue of corporate regulation in the summit's agenda, changed from working towards a 'multilateral agreement', to developing a 'framework', to simply 'promoting best practice'56. Amongst activists and NGOs, however, dissatisfaction with the CSR model was clear. While many NGOs continue to engage with business, the calls for corporate accountability are growing with campaigns such as International Right to Know Campaign in the USA, the CORE Coalition in the UK and other initiatives internationally pressing for more legally binding rather than voluntary regulation.

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CSR Reporting: The recent Rio+20 Summit made one thing clear: the trend in Corporate Social Responsibility reporting is only increasing. However, it is not only governments pushing for transparency in corporate activities; the trend is increasingly driven by business executives. The corporate support stems from the link between sustainability and healthy balance sheets. Accounting for true business costs, including long-term environmental risk, is increasingly important in long-term corporate strategies. While many groups collect CSR reports, the Global Reporting Initiative (GRI) is recognized as the standard for sustainability reporting. GRI started in 1997 as a joint initiative between CERES and UNEP to provide a framework for measuring more than just the financial performance of organizations, looking to the entirety of the organization's impact. GRI guidelines ensure organizations report accurate and meaningful information to their stakeholders. GRI is currently updating their guidelines, having recently closed the first public comment period on the draft for G4. In order to provide a professional CSR report, organizations must focus on topics material to their industry and stakeholders. The first step in assessing and reporting on CSR activities requires identification of both internal and external stakeholders through a materiality analysis. Stakeholders include groups who may affect, or be affected by, the organization's actions. The current GRI guidelines, G3, define material issues as those relating to the economic, environmental and social impacts of corporate activities. Many organizations currently reporting under the G3 guidelines follow a materiality matrix template that compares impacts against influence on stakeholder decisions by focusing on corporate activities and stakeholder communication. Using materiality matrices provides reporting organizations with a clear and visual means for improving transparency in communications with stakeholders.

One of the goals of the draft G4 guidelines is to provide improved guidance on identification of material issues. The G4 guidelines require external stakeholders to increase credibility of reports, making materiality assessments crucial to CSR reporting. With the first comment period closed and analysis of feedback completed, it is clear that many topics are material regardless of industry, with 33% of respondents listing Energy, 27% listing Emissions and 24% listing Water in their top ten material topics. While sector-specific guidance is not a new offering for GRI, this is an area still open for improvement in the G4 guidelines. And, as the G4 guidelines are not final, there is still time to influence the topics deemed material by individual industries. With an increased focus on defining materiality in CSR reporting, GRI is requesting input from organizations through December 14th on identifying sustainability topics material to specific industry groups.

Whether or not an organization has reported with GRI in the past, it is increasingly clear that CSR reporting is becoming the new norm. The call for input on the G4 material topics is an excellent opportunity to provide input and ensure that reporting organizations are transparent in their disclosures. For more information on how to suggest topics for inclusion, GRI provides an informational presentation.

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Challenge of growing profits, revenues and markets in the face of increasing competition, etc. The new challenges centre on securing a 'social license to operate', ensuring long term sustenance, generating a long term value and creating a win-win between business, society and the environment. In the midst of these transformational challenges, it is imperative for the business to perform not only financially but also to be good corporate citizens. Following the path of holistic growth and creating sustainable values is the only route that leads to embracing transformation, combating challenges and achieving growth. But walking on the sustainability path alone is not enough. We need to monitor our growth pattern also and NFR is a tool for that.

What is SUSTAINABILITY REPORTING OR NON-FINANCIAL REPORTING?: The practice of non-financial reporting started largely in response to pressure from nongovernmental organizations (NGOs) and civic society. Under the impression of this many firms lacked social and environmental responsibility. It epitomizes that a company's financial health is dependent on much more than the assets on its balance sheet and the movements on its profit and loss account. Non-financial reporting is an opportunity to communicate in an open and transparent way with stakeholders. In their non-financial reports, firms volunteer an overview of their environmental and social impact during the previous year. The information in non-financial reports contributes to building up a company's risk-return profile.

To understand and appreciate the importance of non-financial reporting, we have to step back in time to recollect how the parameters for evaluation of corporate performance have been changing over the years. During the initial phases, when business was organized as sole proprietorship or partnership firms, profit was the dominant indictor of the performance. Subsequently, with the formation of joint stock companies and the development of stock markets, corporate performance was judged by market capitalization, share price and certain financial ratios such as Earnings per Share (EPS), Return on Equity (ROE), etc. Now in the 21st century, corporate performance will be judged by *corporate social responsibility* (CSR) whose disclosure will fall under non-financial reporting. One of the critical parameters to be evaluated in this context would be the value created by the firm for society and whether such value creation is going to be enduring in nature. While the foregoing is true for any corporate, as far as banks are concerned, since they are highly leveraged institutions dealing with public money and public confidence, there is a greater responsibility for value creation. As a result, non-financial reporting will be extremely important for financial institutions such as banks and its relevance is only going to increase in times to come. Just as financial reporting is not only concerned with returns but the risk-return trade-off, similarly, non-financial reporting is also about the risks that one creates in the society. Many times sustainability and CSR are often terms are used interchangeably, what normally goes in the name of CSR are few acts of philanthropy like donation, setting up educational facilities, health services, etc. and a part of the profit is used for that. But charity is not CSR; charity is not sustainability. Sustainability means business has to be undertaken in a sustainable and profitable manner, and not create undue pressure.

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Sustainable Reporting Framework: Global Reporting Initiative (GRI) is a global initiative to standardize NFR which the institutions adopt and has become the de-facto standard internationally. GRI is a long-term, multi-stakeholder, international process whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These guidelines are for voluntary use by organizations for reporting on the economic, social and environmental dimensions of their activities, products and services. The aim of the Guidelines is to assist reporting organizations and their stakeholders in articulating and understanding contributions of the reporting organizations to sustainable development. One of the most widely used frameworks for reporting on sustainability is the Global Reporting Initiative's G3 Guidelines. This framework has been used in nearly 7500 reports to report on sustainability worldwide and more than 100 GRI reports have been published by Indian companies so far. These guidelines also include a sector supplement, which specially focuses on the financial services sector. But GRI is coming up with the latest standard, which will be G4 guidelines in May 2013. This standard is much more comprehensive and has been prepared taking care of practical difficulties which organizations faced while preparing their reports.

ADVANTAGES OF NFR: There are multiple advantages to both report preparers and report readers. The advantages to the report preparers are:

- Tool for increased comparability and reduced cost of sustainability
- Brand and reputation enhancement
- Differentiation in the market place
- Protection from brand erosion due to action of suppliers or competitors
- Fosters innovations in order to make processes environment friendly.

Advantages to the report readers are:

- Useful benchmarking tool
- Corporate governance tool
- Avenue for long-term dialogue with reporting organization.

To sum up:

- Corporate that focus on Sustainability Reporting outperforms their peers in the long run and help in consolidating their market position
- In view of reliable correlation between business integrity and above average financial performance, NFR demonstrates ongoing business integrity and enhances investor and stakeholder confidence.
- Helps to acquire national and international listing and gain access to otherwise restricted markets.
- Helps to attract finance through transparent relationship with credit providers, improve management systems and employee motivation and customer satisfaction.

Reporting Standards: While currently there are no officially recognized guidelines or reporting standards on sustainability reporting (by accounting or regulatory bodies), there has been an increasing trend amongst companies to publish a variety of information relating to themes such as community, corporate social responsibility, environment,

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health and safety. Indian companies, therefore, present diversity in content and format under the overall umbrella of sustainability reporting. Many organizations in India have certified environmental management systems, based on ISO 14001. Consequently, data on environmental indicators are more readily available and many companies have started reporting by issuing environmental reports which also include health and safety data. It is only after this initial phase that companies in general start developing reporting formats that conform to the GRI Guidelines. In accordance with global trends, some Indian companies have also started seeking independent assurance on their sustainability reports.

Reporting under environmental legislation: One of the fundamental features of India's ancient philosophy has always been respect for the environment. The Indian Constitution is amongst the few in the world that contains specific provisions on environmental protection. State policy principles explicitly enunciate the national commitment to protect and improve the environment.

Reporting on social matters: Generally there has been a very thin line of demarcation between socially aware entrepreneurship and philanthropy. Businesses today are becoming more aware of the business case that social responsibility is not limited to acts of charity and that it requires internalization and systemic expression. In 1980, Tata Steel released a "Report of the Social Audit Committee" which explored whether the company had fulfilled the objective contained in the Articles of Association regarding its social and moral responsibilities to consumers, employees, shareholders, the local community and society. Since then, there has been a growth and consistent improvements in the quality of reporting of Indian companies. Discussions reveal that sustainability reporting in India often starts as a voluntary initiative amidst limited pressure from local NGOs/civic society to publish sustainability reports. Reports are often produced and used for internal purposes.

The main challenges for sustainability reporting in India are the following:

- Lack of a specific sustainability/CSR reporting legislation or guidelines;
- Companies find it challenging to report how they conduct business in the absence of clear guidance based on local conditions;
- Following early experimentation, efforts need to be focused and reporting standardized. Typically, companies tend to report their community initiatives on a few pages in their Annual Reports rather than providing detailed information on internal practices and issues such as transparency, risk, and social or environmental impacts; and
- Synergizing social and business interests needs top priority. Corporate philanthropy needs to transform into the realm of core business and corporate social responsibility.

The GRI G4 Exposure Draft explained: The GRI G4 Exposure Draft, billed as the most significant upgrade of the GRI Reporting Framework since the last upgrade, which aspires to solve all, or many, or most, or even a lot of the issues that reporting companies and other stakeholders have expressed regarding the current GRI Framework. The new

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GRI G4 Exposure Draft is evidence of a major piece of thinking about Sustainability Reporting and contains many insightful changes which will, if approved and implemented by reporting companies, change the landscape of reporting in a meaningful way. It takes some time to navigate the Exposure Draft, especially for those not intimately familiar with the existing G3 Framework. Let's see ourselves of the GRI G4 promise:

- To offer guidance in a **user-friendly** way, so that new reporters can easily understand and use the Guidelines.
- To improve the **technical quality** of the Guidelines' content in order to eliminate ambiguities and differing interpretations – for the benefit of reporters and information users alike.
- To **harmonize** as much as possible with other internationally accepted standards.
- To improve guidance on identifying '**material' issues** – from different stakeholders' perspective – to be included in the sustainability reports.
- To offer guidance on how to link the sustainability reporting process to the preparation of an **Integrated Report** aligned with the guidance to be developed by the International Integrated Reporting Council (IIRC).
- To provide support for **data searching (XBRL**) to provide a taxonomy which captures all the guidelines in XBRL form.

The feedback of various participants at the different levels of organizations will be reviewed by the GRI G4 Working Groups and the Technical Advisory Council, and then the new full draft will be approved by GRI Governance Bodies. The public comment period on this Exposure Draft was open until 25th September 2012. The launch is planned in May 2013, at the GRI Conference in Amsterdam.

The Key Changes: These are the main aspects of the change to G4:

- **Application Levels:** Applications Levels are proposed to be abandoned due to concerns "that the Application Levels are wrongly understood by some report users to be an opinion on the quality of the report, or even a reflection of the sustainability performance of the organization." Now, no more A, B, C! Instead, every reporter must meet a minimum threshold to qualify as a GRI Report, with a two-report grace period for first time reporters to get used to the new form.
- **Boundary:** G4 gives clearer guidance on how to select what to report, shifting the goal posts from the where a company works to how a company impacts through its total Value Chain.
- **Disclosure on Management Approach:** Reporting on management approach should now be driven by identified material aspects. G4 includes new screening, assessment and remediation reporting indicators.
- **Governance and Remuneration:** More disclosures to strengthen the link between governance and sustainability performance and the way remuneration is determined.
- **Supply Chain:** More thorough definitions and much more detailed reporting requirements.

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- **Structure and Format:** Changes in the way the content is presented to make it easier for people to understand.

The big change here, then, is that, in order to be in accordance with the GRI, a reporting organization must first decide on the topics which are material to its business (after due input from stakeholders of course) and then report as a minimum on those material topics – both in terms of Management Disclosures and Core Indicators. If a company decides that six Management Approach Aspects are material to its business, G4 requires disclosure only on those aspects. If environmental impacts are not material, then, in theory, a company can produce an in-accordance Sustainability Report without disclosing any aspect of its environmental impacts. In response to this, the GRI says that materiality is determined by stakeholders, and if stakeholders do not think this is important, then this is ok. In practice, it is unlikely that any large company will not have environmental aspects as part of its materiality radar. But materiality is a relative thing. How many material aspects are most important in any business ? As we have seen in the vast range of materiality matrixes that are published in current reports. A company typically has anything between 8 and 65 most material issues, with 27 issues being the rough average. The G4 Framework proposes that each organization should decide for itself, after due stakeholder consultation, what is material and therefore which Indicators it should report on. Clearly, this presupposes that organizations are able to engage in meaningful consultation with stakeholders and reflect their input into the selection of Material Aspects, something which I believe does not happen widely today. The new G4 offers a broader choice of disclosures. There are **73** Profile Disclosures, 6 Management Disclosure Categories with 44 Aspects, and 95 Indicators, of which **66** are Core Indicators. This is far more extensive in terms of Profile Disclosures (only 42 in G3) and Core Indicators (49 in G3). The Profile Disclosures are now non-negotiable (Application Level C reporters have some discounts in this area in the current system) but in terms of Core Performance Indicators, there is more comprehensive coverage which reporters can select from.

The Five Essentials: What's changing with GRI and G4, and what preparations should you be making? I am trying putting it in five key changes.

1. Goodbye application levels

The change: Current application levels (A, B and C) will probably be discontinued in the G4 Guidelines, and replaced with 'in accordance' criteria.

The logic: Levels are often wrongly associated with a company's sustainability performance – rather than the quality of its disclosure. The new proposal is based on 'in accordance' criteria meaning that all reporters are required to: a) report on all general disclosure items; and b) report on management approach and indicators related to the aspects selected as material aspects for the organization's value chain.

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Implications: Extensive Profile Disclosure and greater detail about materiality will be required, with a limited amount of time to prepare. While we believe this approach will allow greater control over what you report, G4 proposes a much larger number of profile disclosures, which include supply chain, and extensive governance and remuneration. 'In accordance' criteria are yet to be defined but as it stands at the moment, there is a long list of requirements to cover, making the new approach challenging for many companies.

2. Hello value chain

The change: When defining the boundary of your report, you should now consider not only your direct activities but also your impacts throughout the entire value chain.

The logic: The overall focus of G4 is materiality and allowing companies to report only on what matters most to them. So being clear on the most material issues and being able to demonstrate their importance internally by setting the right management approaches and indicators is central to the new approach.

Implications: Prepare to map the entire value chain. Conducting a value-chain materiality assessment to understand where your biggest impacts occur, regardless of whether those impacts are within your direct control, will be one of the greatest benefits and potential difficulties for companies. If your company has yet to understand the impact of your value chain you should consider how you can build this into your strategy and the impact it will have on your disclosure in GRI. Though it's a new challenge for some, we believe this new requirement will be a step forward in helping companies understand the bigger picture of sustainability performance across all their activities.

3. Under new management

The change: G4 proposes one general format to disclose DMA (Disclosure on Management Approach) information at any Category, Aspect or even Indicator level. There are currently 44 Aspects proposed for G4 including Procurement Practices in the Economic Category, Equal Remuneration for Women and Men in the Labor Category, and two Aspects: Screening and Assessment, and Remediation, in four Categories (Environment, Labor, Human Rights and Society).

The logic: By introducing new DMA requirements, GRI is hoping to respond to the feedback received from stakeholders about the lack of guidance in reporting Management Approaches. G4 introduces greater detail with a clearly structured set of issues to report on under each DMA Category.

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Implications: DMA is now a minimum requirement for reporting 'in-accordance' with the GRI and will require a significant amount of information. This should bring a welcome reduction in the generic language companies often use in reporting their management approaches and encourage provision of more focused information. There are also risks: the focus on material issues will mean some impact areas we're used to seeing in reports may appear to be missing, potentially leading to stakeholder concerns. Generally, we believe it will be a good discipline for companies to start defining management approaches for material issues, which will then help them define the right actions.

4. Stricter governance and remuneration disclosure

The change: G4 beefs up disclosure requirements around governance and remuneration, with new indicators proposed on the ratio of executive compensation to median compensation, the ratio of executive compensation to lowest compensation and the ratio of executive compensation increase to median compensation. The number of indicators is rising by 17 in G3 to 41 in G4, all of which will be mandatory as they fall under the Profile section.

The logic: To put sustainability higher on the Board's agenda and to ensure a better link between sustainability and remuneration.

Implications: The mandatory reporting requirements in this section are increasing significantly and some companies may find it difficult, perhaps impossible, to cover all the indicators. GRI's greater focus on accountability and responsibility could be a useful wake-up call for Boards of Directors. However, it remains to be seen whether demanding such a high level of detail will help embed sustainability into businesses.

5. New approach to suppliers

The change: G4 brings in new and amended expectations of disclosure about supply chain impacts. There's a new definition is of supply chain and supplier and new disclosures including procurement practice, screening, assessment and remediation.

The logic: Many companies' greatest value chain impacts are in the supply chain. By encouraging them to explore and report more detail about suppliers, G4 aims to improve their performance.

Implications: As noted, G4 aims to focus companies' efforts on what really matters, and the push on review and assessment of supply chain practices should mean companies get better at anticipating impacts and responding in this crucial area of performance. Again, the newly-proposed requirements demand a level of detail that companies may find difficult to achieve.

Conclusion: The above discussion shows that the CSR movement has become an integral part of the world economy. But is there any evidence that it pays off? The most comprehensive study to date of the link between profitability and CSR, published by two business school professors in 2001, involved a meta-analysis of 95 empirical studies conducted between 1972 and 2000 that sought to answer this question. The authors noted

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that there was heightened scholarly interest in this subject, reflective of what they characterize as the "increasingly urgent need to reconcile wealth creation and human welfare". The 95 studies measured financial performance primarily in terms of return on equity, return on assets and return on sales. Social performance indicators were taken from 27 different data sources and covered 11 different spheres of corporate activities, including the environment, human rights, community involvement and charitable contributions. Most of the 95 studies asked the question this way: Do corporations that have good CSR records produce good financial performance? In just over half of the studies (53 percent) there was a positive relationship, that is, firms do well by doing good and social initiatives contribute to the bottom line. There was a negative relationship in five percent of the studies, and no relationship in 42 percent.

The causal relationship question was reversed in some of the 95 studies, by asking whether financial performance produced positive CSR outcomes. In 68 percent of the studies in this group, there was a positive relationship, suggesting that firms that make money have the ability to devote resources to social initiatives. Evaluation of bottom line impacts is hindered by lack of uniform definitions and measures. Some of the efforts listed above should help overcome this deficiency and facilitate a new generation of studies with more robust evidence. Increasing the amount of attention given to CSR through studies, reports and general public awareness is an important component to the on-going development of these practices.

There was a time when companies' social and environmental reporting was not taken seriously. The efforts of pioneers were often dismissed as cynical exercises in public relations designed to appease non-governmental organizations (NGOs). In the 1990s, NGOs increasingly criticized large corporations for their uncaring attitude towards the environment and employees in developing countries. Firms hoped that a few carefully turned words about their employment practices and CO2 emissions might serve to divert the NGOs' wrath. While great strides forward have been made in mapping CSR and establishing means of accountability, there is still much that is unknown in this field as well as many issues that remain controversial and problematic. Our discussion to this point has been most relevant to large-publicly-held corporations. We know very little about CSR in small and medium sized firms. There is also a degree of volatility in CSR programs that can be harmful to their effectiveness. This volatility comes from the cyclical pattern of the economic cycle as well as the importance of CEO leadership. CEO changes often cause changes in the effectiveness or focus of the CSR program.

For non-financial reporting to become more of a swan and less of an ugly duckling, more discipline needs to be brought to bear on its standards. For a start, non-financial reports should stick to measurable things. There is still too much waffle about good intentions in even the best reports. Just because such reports are non-financial does not mean that their message cannot be conveyed in figures. And they need to stick to things that are material to the company's business. The report of British American Tobacco would have more credibility if it addressed more of the issues around smoking and health, whereas Co-operative Financial Services' discussion of animal rights and its CO_2 emissions seems

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irrelevant. There are plenty of things material to almost all businesses that are still not being reported in financial accounts. One is intellectual property. Few businesses try to value it—less than two out of five, according to a recent survey of European companies—and even fewer report it when they do. Another is human resources, which so many companies profess to be their "most valuable asset". Yet few of them say how much they invest in training, or how many employees they lose in a year.

To establish credibility for non-financial reports it is crucial for the companies to be genuine in their desire to tell a broader story as clearly as they can. And that means not just boasting, but submitting to some form of reliable audit. Accounting firms have been slow to move into this area, but the president of the Institute of Chartered Accountants in England and Wales said recently that he thinks the profession should now take a lead. It is an area sorely in need of leadership.

Furthermore, there is some evidence that the attempt to limit CSR to a branding exercise is meeting with increasing stakeholder cynicism. To many, there is a contradiction between the demand for short-term economic indicators of profitability and the long term value of CSR. There may also be a contradiction between a corporation's CSR policies on the one hand and its continued engagement in harmful business practices on the other hand. Finally, while many corporations are willing to take financial risks in their CSR efforts, they are often quite timid when it comes to supporting even slightly sensitive public policy and advocacy efforts. An exception was the consortia of multinational companies that made early conscious efforts to encourage steps toward a post-apartheid era of governance in South Africa.

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