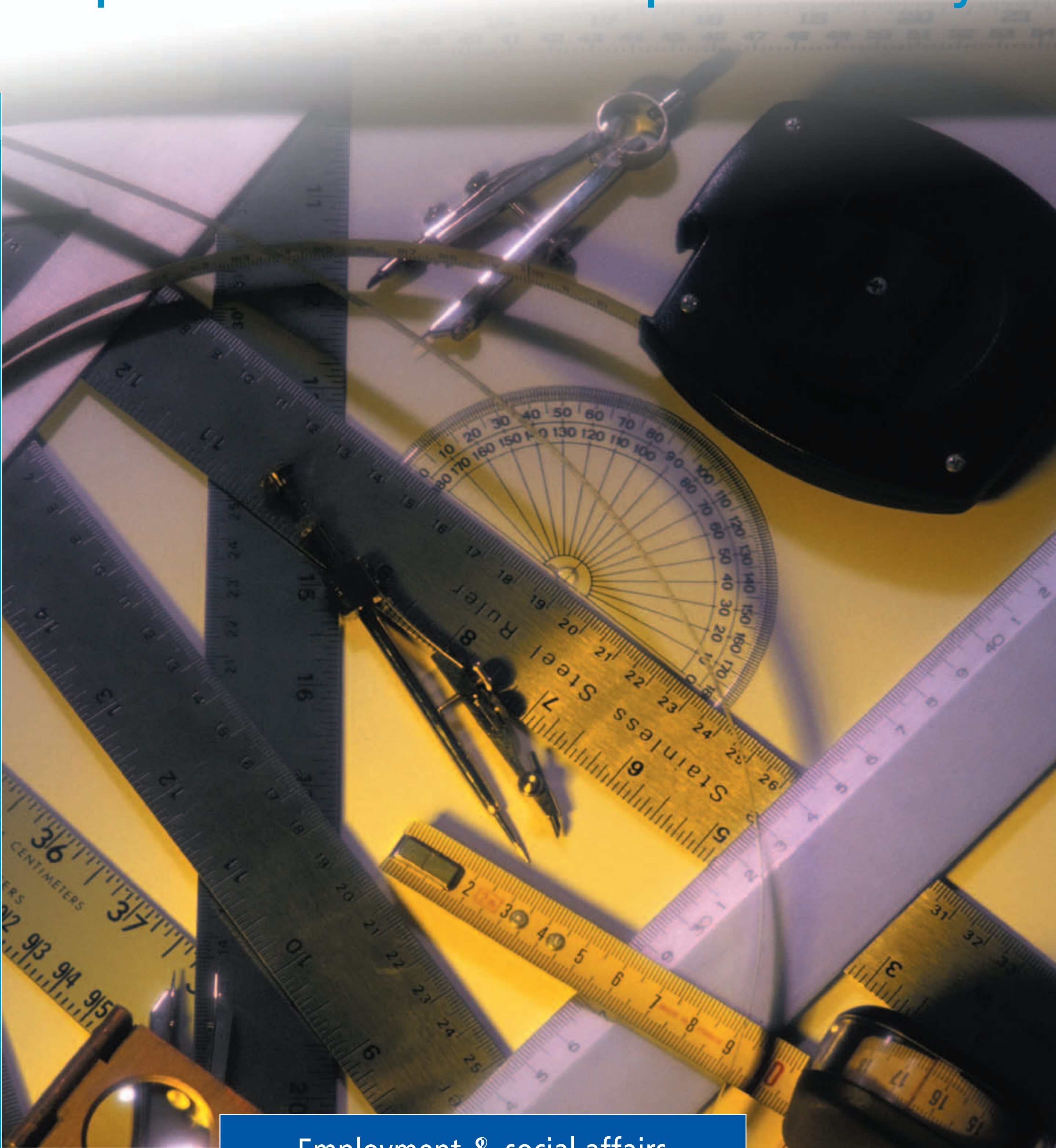
ABC of the main instruments of Corporate Social Responsibility

Industrial relations & industrial change



Employment & social affairs

European Commission

ABC of the main instruments of Corporate Social Responsibility

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Industrial relations and industrial change

European Commission
Directorate-General for Employment and Social Affairs
Unit D.1

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Foreword

The increasing concern about the broad impacts of business on society has resulted in an explosion of instruments to manage, measure, communicate and reward corporate social responsibility (CSR) performance. These range from broad guidelines, codes of conduct setting out aspirational principles for corporate behaviour and sourcing conditions, to complex management systems, auditable and communication tools or investment screening methodologies.

Indeed, CSR instruments play a vital role in providing guidance and benchmarks for sustainability performance and thus underpin the effective promotion of CSR. They establish minimum levels of performance, help organisations manage the quality of their processes, systems and impacts, and encourage best practice. While it is clear that they are becoming a significant part of the business environment, the proportion of companies in Europe which use any of the many recognised CSR tools is low, and the majority of companies remain unconvinced, confused or ignorant of the benefits of doing so.

The number and variety of tools also plays against clarity for consumers and other potential user organisations. With no clear direction as to what all the instruments are, their applications and use, and how they help improve CSR performance, their potential benefits remain untapped.

With a view to promote a greater coherence and transparency of CSR practices and tools, the European Commission has set up the EU Multistakeholder Forum on CSR, with a dedicated round table looking at the credibility and transparency of CSR instruments, as well as at the trade offs between the need for flexibility and that of comparability.

Recognising that CSR is an ongoing learning process for organisations and stakeholders and that the development of tools and practices is in progress, the Commission has underlined the importance of enhancing knowledge about CSR as well as encouraging dialogue between companies and relevant stakeholders to help refine and improve CSR practices and tools.

As a contribution to this process, we are happy to publish this anthology, which provides an ABC of the main CSR instruments and aims to serve as a practical handbook for companies and stakeholders to guide them through the complex world of CSR.

Odile Quintin
Director General

Introduction

This report provides simple, background information on the main instruments of corporate social responsibility (CSR), namely codes of conduct, labels, management standards, reporting and socially responsible investment (SRI). It offers an easy-to-read and useful guide on key features, trends and questions for debate, with the aim to develop a better understanding of these instruments.

The report is a collection of thematic papers on the various CSR tools, following the same format with a brief introduction describing what they are and their function, the drivers and benefits, key issues of debate, recent developments at EU level and a short synopsis of the most relevant initiatives. A list of studies and other resources is included in the annex.

The five thematic papers have been regrouped under three main headings:

1. *Socially responsible management*, which includes instruments setting out standards of performance and management issues used by companies to embed CSR values into their strategy and operations and drive performance improvement (codes of conduct, management standards, sustainability reporting);

2. *Socially responsible consumption*, which describes market-based instruments (labels), mainly addressed to consumers, certifying that the production and trading processes of a specific product have respected a given set of criteria;

3. *Socially responsible investment*, illustrating the various approaches, products and instruments offered to responsible investors (social, green and ethical funds, pension funds, sustainability indexes, screening, shareholder engagement).

Socially responsible management

This section regroups codes of conduct, management and reporting standards as instruments for responsible management, i.e. instruments helping companies to integrate CSR values into their strategy and operations, either by setting out principles for responsible behaviour, providing a set of procedures and implementation steps, or offering indicators and measurement methodologies to evaluate and report on performance. These instruments are complementary and mutually reinforce one another: in order to translate principles into practices, a code of conduct needs to be backed by a management system defining targets, processes, roles and responsibilities, and management systems often include measurement and reporting mechanisms which allow for progress assessment and for identifying targets for improvement.

1. Codes of conduct

1.1. Introduction

A code of conduct is a formal statement of principles defining standards for specific company behaviour. In the globalised economy, codes of conduct have rapidly multiplied due to growing public interest in companies' social and environmental impacts, as well as their ethical conduct.

There are various codes, including:

- 'company codes' adopted unilaterally by companies;
- 'trade association' or 'sector-specific codes' adopted by a group of companies in a particular industry (e.g. the toy sector);
- international and European codes negotiated by the 'social partners' (e.g. European codes in the sectors of trade, textiles, wood and sugar, and framework agreements negotiated between multinational companies and international labour organisations);
- 'multi-stakeholder codes' adopted as a result of joint initiatives by companies, trade unions and NGOs (e.g. the Ethical Trading Initiative base code);
- 'model codes' developed by trade unions, NGOs or other organisations, that serve as a benchmark of reference for the development of a company code (e.g. the ICFTU basic code, Amnesty International human rights principles for companies);
- 'inter-governmental codes' negotiated within international organisations (e.g. OECD 'Guidelines for multinational enterprises', the ILO 'Tripartite declaration of principles concerning multinational enterprises and social policy').

Codes can address a wide range of issues, such as human and labour rights, the use of security forces, bribery and corruption, health and safety issues linked to the use of a product (e.g. baby-milk substitutes) and environmental standards (e.g. gas emissions). The most comprehensive codes addressing labour issues refer to the core labour standards identified by the ILO and include child and forced labour, discrimination issues, freedom of association and collective bargaining, health and safety, wage levels, working times and disciplinary practices.

Codes tend to be concentrated in the consumer goods (apparel, shoes, toys), food and beverages, retail and extractive sectors, and mainly apply to firms which are engaged in international operations.

1.2. Drivers and benefits

Codes are innovative instruments for the promotion of fundamental human, labour and environmental rights and ending anti-corruption practices, especially in countries where public authorities fail to enforce minimum standards.

Companies adopt codes of conduct as an internal management tool to state the values and ethical standards their business subscribes to, to influence the practices of their global business partners and as a way to inform consumers about the principles they follow in the production of goods and services they manufacture or sell. Some companies adopt codes as a direct response to public pressure (media, consumer groups, human rights activists), or to pressure from trade unions, public authorities, shareholders or competitors. Companies that import products from countries with poor human rights records are likely to adopt codes to prevent criticism, especially if their sales depend heavily on brand image and consumer goodwill. Besides the positive impact on corporate reputation, the adoption and implementation of codes of conduct can entail other business benefits such as an improvement in the relationship with business partners, the promotion of good governance and legal compliance in countries of operations, and increased quality and productivity as a result of a healthier work climate.

1.3. Key issues

Some may see the rapid development of codes as a dangerous trend towards a 'privatisation' of social rights. Clearly, codes can only complement and not replace national and international legislation or social dialogue and collective bargaining.

Some key questions underpinning the value and effectiveness of a code

What is the coverage of the code? Does it make reference to international fundamental rights? How far down the supply chain does the code apply? Is it effectively implemented and communicated to workers? How is it monitored and verified? Does it include provisions for complaint mechanisms, corrective and compensation measures?

Credibility and transparency

The value of a code depends on its credibility and transparency, which are linked to the extent to which company workers, trade unions, business partners and suppliers, consumers and other stakeholders are aware of the code's existence and how seriously they take it. Transparency relies on disseminating and communicating the code to all employees, subsidiaries and contractor companies. Credibility depends on the scope, coverage and related enforcement and evaluation mechanisms.

Some argue that codes adopted unilaterally by companies risk covering only a limited number of issues (a 'pick and choose' approach). Even for codes covering an exhaustive range of issues, the importance is to see whether they are really having an impact on what is happening on the ground. For a code to be more than an expression of good intent, it must include clear methods of implementation, monitoring and verification.

Monitoring and verification

Depending on the structure of some industries, monitoring can be a challenging process, due to long and mobile supply chains, multiple layers of ownership, information access problems, presence of multiple codes, and complex technical and social issues. It is fundamental that monitors are equipped with adequate technical competence, skills and good understanding of the business processes and local customs and culture.

Companies use different ways to monitor and verify the effective enforcement of a code: through internal compliance teams (e.g. quality-control staff); second-party audits (e.g. by accounting firms); or independent monitoring, involving third parties such as local NGOs, academics or religious organisations. Tools for monitoring compliance include factory visits and inspections, record's review, worker interviews and complaint systems.

The quality of monitoring and verification processes is determined by their acceptance by the different parties involved. The background, organisational affiliation or financial relations of those carrying out the monitoring and verification is very important to determine the credibility of the process. Independent monitoring implies actors which are 'independent' from the company and/or the employers and it has become a critical test of a company's commitment to corporate social responsibility. Multistakeholder initiatives such as the ETI (ethical trade initiative) developed in recent years are an attempt to gain independence from one party by involving all parties, using monitors that represent and are accountable to different constituencies.

Finally, it should be underlined that monitoring per se only identifies but does not solve problems, and that remediation policies need to follow to redress the problem.

Legal force and corrective measures

By their very nature, codes of conduct are voluntary and contain no legal compulsion. Rather, they impose moral obligations on companies, for example, companies failing to implement their code can be subject to public criticism.

The question of how to enforce legal responsibility and accountability for code infringements or violations of fundamental human rights in third countries remains open. Sanctions for code violations perpetrated by company managers, subsidiaries or suppliers may include fines, demands for corrective actions and remediation programmes, disciplinary measures and, in the worst cases, may lead to the ending of a sourcing contract.

Buyer–retailer relationship: the supply chain management

Codes usually apply to the company's premises and subsidiaries but conformity with their provisions can also be required from the company's contractors and suppliers. In this case, codes are used as 'sourcing guidelines' and apply to workers in the supply chain who are not directly employed by the company (retailer or buyer) adopting the code.

In a way, sourcing guidelines are a step forward in the acceptance by companies of responsibility for the activities of their own subsidiaries and suppliers. But some see a risk of creating a market concentration focusing on the biggest suppliers that can comply with the terms of a code and leaving the smaller supplier without access to export markets.

The buyer–retailer/supplier relationship has an important impact on code implementation and compliance. It is the retailers' responsibility to know their supply chain, build a long-term relationship with their suppliers, and impose no conditions — such as extremely low pricing policies or tight deadlines — that can undermine the suppliers' capacity to comply with the code's provisions.

1.4. Recent developments at EU level

▲ **The Commission communication on agricultural commodity chains, dependence and poverty**, COM(2004) 89, stated that multinational commodity enterprises should be encouraged to comply not only with local laws, but also with OECD guidelines and the ILO 'Declaration on principles concerning multinational enterprises and social policy'. These include guidance and principles on chain accountability, rendering enterprises liable and responsible for the circumstances under which products are produced. Moreover, the Commission repeated of its commitment to promote the effectiveness and credibility of sustainable codes of conducts within the commodity chain.

▲ **The Commission proposal for a directive concerning unfair business-to-consumer commercial practices in the internal market (the unfair commercial practices directive)**, COM(2003) 356. The purpose of this directive is to contribute to the proper functioning of the internal market and achieve a high level of consumer protection by approximating the laws of the Member States on unfair commercial practices harming consumers' economic interests. Matters of social responsibility are in principle outside its scope, unless the trader establishes a specific connection between his obligations in these areas and the marketing of his products. Nevertheless, the draft directive reads 'A commercial practice shall be regarded as misleading … if it … causes or is likely to cause the average consumer to take a transactional decision that he would not have taken otherwise because it deceives or is likely to deceive him in relation to … the main characteristics of the product, such as its … method … of manufacture or provision … or involves … non-compliance by the trader with commitments contained in codes of conduct by which the trader has undertaken to be bound'.

▲ **The Commission communication concerning corporate social responsibility, a business contribution to sustainable development**, COM(2002) 347, stated that codes of conducts should:

- build on the ILO fundamental conventions, and the OECD 'Guidelines for multinational enterprises' as a common minimum standard of reference;
- include appropriate mechanisms for evaluation and verification of their implementation, as well as a system of compliance;
- involve the social partners and other relevant stakeholders which are affected by them, including those in developing countries, in their elaboration and monitoring;
- disseminate experience of good practices of European enterprises.

The Commission also invited the EU Multistakeholder Forum on Corporate Social Responsibility to consider the effectiveness and credibility of existing codes of conduct and how convergence can be promoted at European level. The CSR Forum presented the Commission a final report with its conclusions on 30 June 2004. (http://europa.eu.int/comm/employment_social/soc-dial/csr/csr_index.htm).

▲ **The Commission communication on promoting core labour standards and improving social governance in the context of globalisation**, COM (2001) 416, supported the use of the ILO's core conventions as a common minimum standard for private and voluntary schemes to improve transparency and producers' compliance capacity.

▲ **European sectoral codes of conduct**

In recent years, several codes of conduct have been negotiated by European social partners within the following sectors:

- textile and clothing (Euratex–ETUF:TCL, code of conduct including the four core labour standards[1], 1997);
- footwear (CEC–ETUF:TCL charter on child labour, code of conduct including the four core labour standards, 2000);
- leather (Cotance–ETUF:TCL code of conduct including the four core labour standards, reasonable working hours, decent work conditions, fair wages, 2000);
- commerce (Eurocommerce and Euro-Fiet statement on combating child labour and joint declaration on fundamental rights and principles at work, 1999);
- wood (CEI–BOIS–EFBWW code of conduct including the four core labour standards, 2002);
- sugar (EFFAT and the CEFS code of conduct addressing human rights, training, health and safety, fair pay, working conditions, restructuring and choice of suppliers).

These codes include provisions for dissemination within the social partners' national members, implementation and evaluation (http://europa.eu.int/comm/employment_social/soc-dial/csr/csr_doc.htm).

(1) Freedom of association and collective bargaining, abolition of child labour, abolition of forced labour, anti-discrimination.

▲ **The European Parliament report entitled 'A code of conduct for European enterprises operating in developing countries'** (Howitt Report, 1999) called on the Commission and the Council to develop a European multilateral framework governing companies' operations worldwide, including a voluntary European code of conduct and an independent monitoring platform. As a follow-up to the report, annual public hearings looking at operations of multinational companies in third countries have been organised at the Parliament. (The first hearings focused on the issues of baby-milk substitutes in Africa, work conditions in the apparel industry in Pakistan and oil companies operating in Burma http://wwwdb.europarl.eu.int/oeil/oeil_ViewDNL.ProcedureView?lang=1&procid=531).

▲ **EU–US symposia on codes of conduct and international labour standards**
Within the framework of the transatlantic dialogue, the European Commission's Employment and Social Affairs DG and the US Department of Labor coorganised two symposia on codes of conduct that took place in Brussels, in February 1998, and in Washington, in December 1998. These two events were a first attempt to share experiences from both sides of the Atlantic, looking at issues like scope, implementation, monitoring and standardisation of codes of conduct. Among the main conclusions were that codes are a good way to improve working conditions of workers in developing countries, that they should contain at least the core labour standards, and that their effectiveness can be achieved only through a long-term, step-by-step partnership approach.

1.5. Relevant initiatives

Intergovernmental principles and codes of conduct
- ILO 'Tripartite declaration of principles concerning multinational enterprises and social policy'
- ILO 'Declaration on fundamental principles and rights at work'
- OECD 'Guidelines for multinational enterprises' (MNEs)
- UN 'Draft guidelines for companies'

Multistakeholder codes of conduct
- Ethical Trading Initiative
- Voluntary principles on security and human rights for the extractive sector

Model codes of conduct (e.g. developed by NGOs, trade unions and other organisations)
- Amnesty International human rights principles for companies
- ICFTU 'Basic code of labour practice'
- UN global compact

1.5.1. Intergovernmental principles and codes of conduct

▲ **ILO 'Tripartite declaration of principles concerning multinational enterprises and social policy'**
The principles laid down in this universal instrument adopted by the ILO in 1977 offer guidelines to multinational enterprises (MNEs), governments, employers' and workers' organisations in such areas as employment (equality of opportunities, security of employment), training, work conditions and industrial relations (e.g. wages, benefits, minimum age, health and safety, freedom of association and collective bargaining, consultation, examination of grievances, settlement of industrial disputes). Its provisions are reinforced by the core ILO international labour conventions and recommendations.

The declaration is not legally binding but does not need prior acceptance by an enterprise in order to apply. Periodic surveys are conducted to monitor the effect given to the declaration by MNEs, governments, and employers' and workers' organisations. In the event of disagreement over its application, the parties may submit a request to the ILO for an interpretation of the meaning of its provisions (www.ilo.org/public/english/standards/norm/sources/mne.htm).

▲ ILO 'Declaration on fundamental principles and rights at work'

Adopted in 1998, the declaration has its roots in the 1995 World Summit for Social Development in Copenhagen, during which the world's Heads of State affirmed the universal application of core workers' rights. The declaration is a renewed political commitment by ILO Member States to respect, promote, and enforce the core labour rights: freedom of association and right to collective bargaining; elimination of forced labour; abolition of child labour; anti-discrimination.

The declaration is not subject to ratification and applies to all ILO members, including those that have not ratified fundamental conventions. The declaration introduced a follow-up mechanism which is additional to the supervisory mechanisms established by the ILO constitution for the application of ratified conventions. Firstly, all ILO Member States are required to submit an annual report indicating their progress in the promotion of the principles of fundamental conventions. Employers' and workers' organisations are also encouraged to promote the declaration within their own organisations and to their respective members. They also play an important role in providing comments on the reports. Secondly, the ILO's Director-General presents each year a global report covering countries which have ratified the conventions and those which have not, and focusing on identification of trends and needs round the world (http://echo.ilo.org/pls/declaris/DECLARATIONWEB.INDEXPAGE?var_language=EN).

▲ OECD 'Guidelines for multinational enterprises'

The OECD guidelines (last revised in June 2000) are part of the 'Declaration on international investment and multinational enterprises', adopted in 1976 to facilitate direct investment among OECD members. The guidelines are non-binding recommendations addressed by OECD Member States to multinational enterprises (MNEs) and providing voluntary principles for responsible business conduct in harmony with the policies and laws of the countries where they operate.

They cover the full range of MNEs' operations, from employment and industrial relations issues such as the four core labour standards, health and safety, work conditions, training, reasonable notice on industrial changes, to broader ethical conduct issues such as combating bribery, protecting consumer interests, fair marketing and advertising practices. Disclosure, taxation, competition issues and environmental matters are also addressed.

Although not legally binding, the OECD governments are committed to promote their observance and ensure their effectiveness through the national contact points (NCPs), which often have a tripartite composition (including government, social partners and civil society organisations). The NCP gathers information on the implementation of the guidelines and submits an annual report of its activities to the Committee on International Investment and Multinational Enterprises (CIME), the OECD body responsible for overseeing the functioning of the guidelines. The BIAC and the TUAC, the advisory committees of business and labour federations, have the tasks to inform their member federations on the guidelines' development and seek their members' input in the follow-up procedures. In case of non-compliance, the use of appropriate international dispute settlement mechanisms, including arbitration, is encouraged. There is no supervisory system similar to that of the ILO and the UN human rights bodies. Beyond the promotion function, the role of public authorities in implementing the guidelines is not clearly defined. For instance, no specific indication is given on the type of monitoring mechanisms to be put into place (www.oecd.org/daf.investment/guidelines/mnetext.htm).

▲ UN 'Draft guidelines for companies'

At its first session, in August 1999, the UN Human Rights Commission's working group on the working methods and activities of transnational corporations decided to consider developing a code of conduct for companies based on human rights standards. Such a code would attempt to involve in a constructive manner the relevant business communities, governments and NGOs. Draft set of guidelines has been circulated and commented upon by a range of organisations including companies, NGOs, governments and trade unions.

The draft guidelines address a wide variety of topics including: right to equal treatment; right to security of persons, including the responsibility to create appropriate security arrangements; right to a healthy and safe work environment; fair remuneration; freedom of association, and collective bargaining; respect for national sovereignty including avoidance of corruption; respect for economic, social and cultural rights as well as civil and political rights; obligations regarding consumer and environmental protection.

The norms were adopted by the Sub-Commission for the Protection and Promotion of Human Rights in August 2003. In early 2004, the Commission on Human Rights requested the Office of the High Commissioner for Human Rights (OHCHR) to compile a report setting out the scope and legal status of existing initiatives and standards relating to the responsibility of transnational corporations and related business enterprises with regard to human rights. The High Commissioner will submit this report to the next session of the Commission on Human Rights (March/April 2005). In this context, the Office of the High Commissioner, in cooperation with the Global Compact Office (GCO), also held a stakeholders' consultation on "Business and Human Rights" on 22 October 2004. The summary of discussions can be found at www.unglobalcompact.org/content/NewsDocs/reportconsultfinal.pdf.
(www.unhchr.ch/Huridocda/Huridoca.nsf/TestFrame/64155e7e8141b38cc1256d63002c55e8?Opendocument)

1.5.2. Multistakeholder codes of conduct

▲ Ethical Trading Initiative (ETI)
The Ethical Trading Initiative (ETI) is a UK-based alliance of companies, trade unions and NGOs, whose goal is to promote the use of a widely endorsed set of standards aimed at improving working conditions in the global supply and production chain. ETI members work together to identify and promote — through a 'learning by doing' process — good practice in the implementation of codes of conducts, including monitoring, independent verification and auditing methods. The ETI is funded by memberships with the support of the Department for International Development (DFID) of the UK government.

As a condition for membership, ETI member companies agree to bring their own codes of conduct in conformance with the ETI base code and to apply it to their international supply chains.

ETI member companies have to identify suppliers, assess their labour practices and discuss with them how the code can be applied in a specific country and industry. Companies then develop an internal monitoring programme and plans for independent verification. The ETI has started a number of pilot projects (clothing in China, horticulture in Zimbabwe, wine in South Africa and bananas in Costa Rica) designed to test different models of code monitoring and verification, with involvement of ETI members (participation is a requirement for all ETI members) and local NGOs and trade unions. The aim is to develop productive long-term relationships with suppliers, so only in extreme cases of non-compliance would the companies end their supply contracts. Companies are required to report to the ETI on their annual progress on how they are meeting code requirements, including an overview of the compliance monitoring work carried out during the year, details of corrective action taken, and priorities and targets for the coming year (www.ethicaltrade.org).

▲ Voluntary principles on security and human rights for the extractive sector
In 2000, the UK Foreign Office and the US Department of State brought together a number of leading energy and mining companies (including Rio Tinto, Chevron, Texaco, Shell, BP), human rights NGOs (Amnesty International, Human Rights Watch), social partners (the International Federation of Chemical, Energy, Mine and General Workers Union), and other organisations (BSR, IBLF) to develop guidelines for companies on ways to handle their security arrangements consistent with international human rights standards. These voluntary principles address three key areas: criteria that companies take into account in assessing the risk to human rights in their security arrangements; their relationships with State security forces, both military and police; and company relations with private security forces. Under these guidelines, companies agree to examine any allegations of human rights abuses by their own security personnel and to push for investigations of alleged abuses by government security and press for 'proper resolutions' (www.state.gov/g/drl/rls/ 2931.htm).

1.5.3. Model codes of conduct

▲ Amnesty International human rights principles for companies
Amnesty International has produced an introductory checklist of human rights principles to assist multinational companies. These principles are based on the following international human rights standards: the 'Universal declaration of human rights' (UDHR), conventions of the International Labour Organisation (ILO);

the United Nations (UN) basic principles on the use of force and firearms; the UN 'Code of conduct for law enforcement officials'; and the ILO 'Tripartite declaration of principles concerning multinational enterprises and social policy'. They include: company policy on human rights; security arrangements; community engagement; freedom from discrimination; freedom from slavery; health and safety; freedom of association and the right to collective bargaining; fair working conditions; credible and periodical mechanisms to monitor effectively all operations' compliance with codes of conduct and international human rights standards (http://web.amnesty.org/library/index/engACT700011998?open&of=eng-398).

▲ ICFTU 'Basic code of labour practice'

In 1997, the ICFTU adopted a 'Basic code of conduct covering labour practices'. The code aims to establish a minimum list of standards that all codes of conduct covering labour practices ought to address, including the four basic labour standards, living wages, working time and conditions. The basic code is meant to assist trade union organisations in negotiations with companies and in working with NGO's in campaigns involving codes of conduct. It can also be used as a benchmark for evaluating any unilaterally adopted codes of labour practice (www.icftu.org/displaydocument.asp?Index=991209513& Language=EN).

▲ UN global compact (GC)

This initiative launched in 1999 by UN Secretary General Kofi Annan includes nine principles on human rights (support and respect the protection of internationally proclaimed human rights within their sphere of influence; make sure companies are not complicit in human rights abuses), labour rights (the four core labour standards) and the environment (support a precautionary approach to environmental challenges; undertake initiatives to promote greater environmental responsibility; encourage the development and diffusion of environment friendly technologies). In order to participate in the global compact, companies must send a letter from their CEO to the UN Secretary-General, commit to integrating the GC's nine principles into their mission statement and activities and inform their employees, shareholders, customers and suppliers about them. Companies adhering to the GC are asked to report progress on implementation of the nine principles in their annual reports. This public statement of support does not represent a binding commitment to specific performance criteria. As a learning forum, the GC seeks to identify and promote good practices. The UN will not audit and assess the performance of the participating companies. As its main activities, the GC offers facilitation learning sessions, policy dialogue opportunities through high-level events with social partners, public authorities, NGOs and other stakeholders, funding of on-the-ground projects and promotion of local networks. On 24 June 2004, during the Global Compact Leaders Summit, UN Secretary-General Kofi Annan announced that after extensive consultations with all participants, the Global Compact will include a tenth principle against corruption, extortion and bribery, reflecting the recently adopted United Nations convention on that subject. In order to operationalize the new principle, the Global Compact intensified cooperation with the United Nations Office on Drugs and Crime (UNODC), the UN agency, located in Vienna, that will bet he "guardian" of the principle. Furthermore, as recommended during the Policy Dialogue on "Transparency and the Fight against Corruption" in Paris, January 2004, and in line with the other nine principles, tools best practices (company guidelines, training, reporting) will be developed. The Global Compact is also determined to improve its overall governance structure in particular promoting a decentralised model that empowers country and regional networks and activities so to strengthen the impact at local level (www.globalcompact.org).

2. Management standards

2.1. Introduction

There are a number of different management standards and frameworks (e.g. quality, environmental, health and safety, workplace standards) that enable an organisation to embed social and environmental considerations and stakeholder participation into business decision-making and operations.

Management standards, systems or frameworks are internal tools for companies and other organisations to integrate their values into everyday practice. More precisely, *management systems* refer to a set of procedures, process steps and specifications that an organisation uses to manage a process or activity. They are normally employed by large organisations needing to systemise their activities.

Management systems standards provide the organisation with a model to follow for setting up and operating a management system. They are developed by standard-setting bodies through comprehensive consultations with various interested parties. Usually, the ambition for standards is to have them apply worldwide and that they represent state-of-the-art management frameworks against which companies can be certified. There are *process* standards, focusing on types of process and implementation steps, and *performance* standards, which include measurement and reporting of performance and progress [2].

2.2. Drivers and benefits

In order for their commitments to CSR to be taken seriously, companies are expected to develop systems to implement, assess and evaluate CSR policies and practices, including the definition of targets, processes, roles and responsibilities, training, mechanisms to measure and report on progress, and corrective measures.

Management systems help improve the strategic management of CSR and enhance the company's CSR performance, accountability and credibility. They can help identify and manage efficiently social and environmental risks, involve stakeholders more actively and systemically, and increase the overall organisational effectiveness through a rationalised collection and analysis of information on operations and impacts and a better coordination across departments.

Finally, management standards against which a company can be certified can be useful benchmarks and communication tools on management performance.

2.3. Key issues

Management standards are voluntary and their success ultimately depends on the level of acceptance by the market. The authority of the standard body that sets them and the process through which they are developed (e.g. involving consultations with a wide range of interested parties) are also very important to determine their credibility.

When certification against a management standard is used as a communication tool, there is a need to make sure that the process through which the standard has been awarded is transparent and independent.

It is worth underlining that the adoption by companies of CSR management techniques and systems per se is no guarantee of good performance. A great challenge ahead is how to define and measure *good* business performance in this area.

Also, the adoption of management standards does not remove the organisation's responsibility to fulfil its legal obligations. On the other side, they can be useful tools supporting the implementation of legislation.

(2) Reporting standards such as the Global Reporting Initiative are addressed in Section 3 'Reporting'.

CSR standardisation?

While the development of management tools is seen as an essential step to enable companies to translate their broad CSR commitments into concrete actions and ensure the quality of how they are managed, the debate over *CSR standardisation* is controversial. Some underline the danger of reducing complex CSR issues to a tick-boxing exercise and believe that each company needs to develop its own approach to CSR, while others recognise the benefits of globally accepted benchmarks in facilitating comparability and transparency of CSR practices and achieving consistency in the understanding of how these issues may be managed. For the latter, this would help to make meaningful assessments about a firm's corporate responsibility practices.

2.4. Recent development at EU level

▲ In its communication entitled **'Corporate social responsibility: a business contribution to sustainable development'**, COM(2002) 347, the Commission has committed to promote the uptake of EMAS (eco-management and audit scheme is a voluntary scheme for organisations willing to commit themselves to evaluate and improve their environmental performance) and explore the opportunity to apply the EMAS approach to address the social performance of companies and other organisations. Moreover, it has invited the CSR EMS Forum to examine this issue. The CSR Forum presented the Commission a final report with its conclusions on 30 June 2004 (http://forum.europa.eu.int/irc/empl/csr_eu_multi_stakeholder_forum/info/data/en/CSR%20Forum%20final%20report.pdf).

▲ **The 'EMAS in the Commission' project**
In September 2001, the Commission adopted a decision to implement 'EMAS in the Commission — First phase', to take a more integrated and systematic approach to the management of environmental matters within its administration. This two-year pilot project — initiated in mid-2002 — will initially target three pilot DGs (the Secretariat-General, Environment, and Personnel and Administration) and results and will be extended to all Commission departments in a later stage.

2.5. Relevant initiatives

The standards described in this section do not address the full range of CSR issues, but provide companies with useful frameworks that can be expanded to address the operationalisation of CSR commitments and objectives.

Workplace standards
- Social Accountability (SA 8000) (on labour conditions)
- ILO–OSH 2001 — ILO 'Guidelines on occupational safety and health management'
- OHSAS 18001 (occupational health and safety zone)

Quality management standards and other frameworks
- ISO 9000
- EFQM (European Foundation for Quality Management) model for business excellence
- AA(AccountAbility)1000 — A stakeholder engagement framework
- ISO CR MSS (ISO corporate responsibility management system standards)

Environmental management standards
- EMAS (Eco-management and audit scheme)
- ISO 14000

National initiatives

- AFNOR SD 21 00 — Guidelines on sustainable development — France
- AENOR PNE 165001 (draft ethical financial instruments) and PNE 165010 (draft ethical management systems standards) — Spain
- The SIGMA project (sustainability integrated guidelines for management) — UK
- Investors in people — UK
- The Q-Res project (Management Framework for ethical and Social Responsibility of Corporations) — Italy

Sectoral initiatives

- FORGE — 'Guidelines on environmental management and reporting for the financial services sector' — UK
- FORGE — 'Guidance on corporate social responsibility management and reporting for the financial services sector' — UK

2.5.1. Workplace standards

▲ Social Accountability 8000 (SA 8000) (on labour conditions)

Social Accountability 8000 (SA 8000) is an international workplace standard and monitoring process launched in 1998 by Social Accountability International (SAI) with the aim of helping companies develop and manage social accountability systems in company-owned and suppliers' facilities. Formerly known as the Council on Economic Priorities Accreditation Agency (CEPAA), SAI is a non-governmental, non-profit organisation established in 1997 to develop and verify the implementation of voluntary corporate social responsibility standards. To develop SA 8000, SAI convened an International Advisory Board, which comprises experts from trade unions, businesses and NGOs.

SA 8000 is based on core International Labour Organisation (ILO) conventions, the United Nations (UN) 'Universal declaration of human rights' and the UN 'Convention on the rights of the child'. The standard includes the following issues: child labour, forced labour, health and safety, freedom of association and right of collective bargaining, discrimination, disciplinary measures, working hours, remuneration, suppliers relations.

Manufacturers and suppliers seeking certification to SA 8000 must apply for certification with one of SAI's accredited auditors, and are required to adopt and implement a programme to pursue SA 8000 certification within one year. SA 8000 is modelled on the standards of the International Organisation for Standardisation for quality control (ISO 9000) and environmental management (ISO 14000) standards. Once the auditor has determined that the factory does not have any areas of 'major-non conformance' with SA 8000, a certificate valid for three years will be issued, during which time the facility will be re-evaluated every six months. SAI has adopted ISO auditing techniques such as specifying corrective and preventive actions, encouraging continuous improvement, and focusing on management systems and documentation proving the effectiveness of systems.

Facilities certified under SA 8000 are disclosed publicly, through an updated list maintained by SAI (www.cepaa.org/).

▲ ILO–OSH 2001 — ILO 'Guidelines on occupational safety and health management'

In 1996, the possibility of developing an ISO standard on OSH management systems was discussed at an ISO international workshop on OSH–MS standardisation. The workshop concluded that the International Labour Organisation (ILO) — because of its tripartite structure — was a more appropriate body to elaborate international guidance documents for the establishment and implementation of effective occupational safety and health management systems. In 1998, the ILO Occupational Safety and Health Branch in cooperation with the International Occupational Hygiene Association (IOHA) started preparing draft guidelines on the basis of key OSH–MS elements identified in existing OSH management system standards and guidance documents. The final draft of the ILO 'Guidelines on occupational safety and health management systems' (ILO–OSH 2001) was finally adopted in 2001.

ILO-OSH 2001 provides a unique international model, compatible with other management system standards and guides. It reflects ILO values such as the Occupational Safety and Health Convention, 1981 (No 155), and the Occupational Health Services Convention, 1985 (No 161). The ILO guidelines encourage the integration of OSH–MS with other management systems and state that OSH should be an integral part of business management. Its application does not require certification, but it does not exclude certification as a means of recognition of good practice if this is the wish of the country implementing the guidelines.

The guidelines provide guidance for implementation on two levels — national and organisational.

- *National occupational safety and health management system framework*

  At the national level, they provide for the establishment of a national framework for occupational safety and health (OSH) management systems, preferably supported by national laws and regulations. Action at national level includes the nomination of (a) competent institution(s) for OSH–MS, the formulation of a coherent national policy in consultation with employers' and workers' organisations and the establishment of a framework for an effective national application of ILO–OSH 2001.

- *Organisational occupational safety and health management system framework*

  ILO-OSH 2001 stresses the importance that at organisational level, OSH should be a line management responsibility. The OSH management system in the *organisation* follows the following systemic approach:
  - *policy* refers to OSH policy and worker participation;
  - *organising* refers to responsibility and accountability, training, documentation and communication;
  - *planning and implementation* refers to the initial review, system planning, OSH objectives and hazard prevention, development and implementation;
  - *evaluation and action for improvement* refers to monitoring and measurement, investigation of work-related injuries, diseases and incidents, audit and management review. It includes the very important element of auditing, which should be undertaken for each stage. *Action for improvement* refers to preventive and corrective action and continual improvement.

    (www.ilo.org/public/english/protection/safework/managmnt/download/promo.pdf)

▲ OHSAS 18001 (occupational health and safety zone)

In 1996, the British Standards Institution (BSI) issued BS 8800, an occupational health and safety management guidance document. As a guidance document, BS 8800 was not intended to be used as the basis for certifications. As a consequence, a number of certification bodies developed their own occupational health and safety standards based on BS 8800 against which organisations could be certified, causing a high degree of variation in content from one to the other. Also, because different bodies in different jurisdictions had their own certification schemes, mutual recognition of these schemes became a problem. To address this problem, OHSAS 18001 was jointly developed by 13 national standards organisations and international certification bodies and specialist consultancies. OHSAS is an *international occupational health and safety management system* scheme aimed to provide organisations with a structured approach to prevent and manage occupational health and safety risks. OHSAS was prepared to provide interim specifications and related guidance for occupational health and safety management systems until formal international standards are published. But so far, the ISO has decided not to launch the development of a management system standard in this area (see above).

OHSAS 18001 can be used by any size of organisation regardless of the nature of its activities or location. The emphasis of the scheme is placed on practices being proactive and preventive by the identification of hazards and the evaluation and control of work-related risks. To assist organisations in this respect, it offers a code of practice on general safety management requirements (training, risk assessment, housekeeping, protection against noise, fire, hazardous substances, accidental treatments, electrical equipment, hygiene matters, etc.).

OHSAS 18001 includes the following elements: an OH & S policy, planning, implementation and operation, checking and corrective action, management review, and continual improvement. Certification by an external organisation is available (www.ohsas-18001-occupational-health-and-safety.com/).

2.5.2. Quality management standards and other frameworks

▲ ISO 9000

ISO 9000, just like ISO 14000, are families of standards known as *generic management system standards* as they can be applied to any organisation, large or small, whatever its product — including services — in any sector of activity, and whether it is a business enterprise, a public administration or a government department.

Both management systems are founded on the notion of continuous improvement, meaning that targets and objectives are constantly reviewed and updated to reflect progress and changes in operating conditions. The standards themselves are periodically reviewed in order to benefit from new developments in the quality and environmental quality management fields and also from user feedback.

In the ISO system, standards are developed by national delegations of experts from business, government and other relevant organisations. They are chosen by the national standards institutes participating in the technical committee concerned and are required to present a consensus position based on the views of stakeholders in their country.

The **ISO** (International Organisation for Standardisation) is a international, non-governmental, standard-setting organisation set up in 1947 and regrouping national standard bodies from more than 140 countries. Its mission is to promote the development of standardisation and related activities in the world with a view to facilitating the international exchange of goods and services, and to develop scientific, intellectual, technological and economic cooperation. ISO standards are international and provide voluntary, baseline, rules which can be adopted by private companies or public authorities. The ISO standards setting process is a rules-based system, in which participants (representing consumer, business, and other interests from developed and developing countries) reach decisions on the basis of consensus. Draft standards are then subject to wider consultations. The assessment of conformity with the requirements of a standard is not done by the ISO itself but it is a matter for suppliers and their clients in the private sector, and of regulatory bodies when ISO standards have been incorporated into public legislation. The process of conformity assessment is performed by certification or registration (registrar) bodies. Certification bodies need to be accredited (approved) by national accreditation bodies which give formal recognition that they are competent to carry out certification (http://www.iso.org).

The ISO 9000 family — published in 1987 — represents an international consensus on good management practices, which have been distilled into a set of standardised requirements for an effective quality management system which takes into account all those features a product or service need to meet the client's quality expectations.

ISO 9004 gives guidelines on the elements of quality management and quality systems, while ISO 9001, 9002 and 9003 are the three quality assurance models against which this system can be audited to give the organisation and its clients assurance that the system is operating effectively. The effective implementation of an ISO 9000-based quality system can be audited internally by the organisation itself, by its clients, or by independent quality system certification bodies which give the ISO 9000 certificate of conformity. The certificate can also serve as a business reference between the organisation and potential clients.

The main quality management principles are the following:

- customer focus (e.g. researching and understanding customer needs);
- leadership (e.g. establishing a clear vision of the organisation's future);
- involvement of people at all levels of the organisation;
- process approach (e.g. systematically defining activities necessary to obtain a desired result, establishing clear responsibility and accountability for managing key activities);

- system approach to management (e.g. structuring a system to achieve the organisation's objectives in the most effective and efficient way, continually improving the system through measurement and evaluation);
- continual improvement of the organisation's overall performance as a permanent objective of the organisation;
- factual approach to decision-making (e.g. ensuring that data and information are sufficiently accurate and reliable and analysing data and information using valid methods);
- mutually beneficial supplier relationships (e.g. pooling expertise and resources with partners).

(www.iso.org/iso/en/iso9000-14000/iso9000/iso9000index.html)

▲ EFQM (European Foundation for Quality Management) model for business excellence

The European Foundation for Quality Management (EFQM) is a not-for-profit membership foundation founded in 1988 by 14 major European companies with the support of the European Commission. The main aim of the network — which now has more than 800 members — is to stimulate and assist organisations throughout Europe to excellence in customer satisfaction, employee satisfaction, impact on society and business results. The 'European model for business excellence' — introduced in 1991 and known as the EFQM excellence model — is a European framework for quality improvement which aims to improve business results while giving people a better working environment, providing customers with the best possible value and quality, and taking account of the impact on society of the organisation's activities. The EFQM excellence model is a practical self-assessment tool that enables managers to put into practice the principles of total quality management (TQM) in the way they do business and in their relationships with their employees, shareholders, customers and communities in which they operate and to measure where they are on the path to excellence.

The fundamental concepts which underpin the EFQM model are the following:

- results orientation — balancing and satisfying the needs of all relevant stakeholders;
- customer focus — the customer is the final arbiter of product and service quality;
- leadership and constancy of purpose — the behaviour of an organisation's leaders creates a clarity and unity of purpose within the organisation;
- management by processes and facts — organisations perform more effectively when all inter-related activities are understood and systematically managed;
- people development and involvement — the full potential of an organisation's people is best released through shared values and a culture of trust and empowerment;
- continuous learning, innovation and improvement — organisational performance is maximised within a culture of continuous learning, innovation and improvement;
- partnership development — an organisation works more effectively when it has mutually beneficial relationships, built on trust and the sharing of knowledge with its partners;
- corporate social responsibility — the long-term interest of the organisation and its people are best served by adopting an ethical approach and exceeding the expectations and regulations of the community at large.

(www.efqm.org)

▲ AA(AccountAbility)1000 — A stakeholder engagement framework

AccountAbility is an international, not-for-profit, professional institute dedicated to the promotion of social, ethical and overall organisational accountability and governed by an international multistakeholder Council regrouping representatives from business, NGOs, consultancies and the research community. In 1999, it launched AA1000, a tool designed to improve accountability and performance of organisations through integrating stakeholder engagement into their decision-making processes and daily activities.

AA1000 aims to assist an organisation in the definition of indicators, goals and targets, the measurement of progress made against these targets, the auditing and reporting of performance and in the establishment of feedback mechanisms. It thus provides a framework that organisations can use to understand and improve their ethical performance, and a means for others to judge the validity of claims to be ethical.

The standard is designed both for internal and external audit procedures. It may be used by organisations of any size, and by public, private and non-profit organisations. The principle underpinning AA1000 is inclusivity. The building blocks of the process framework are planning, accounting, auditing and reporting and the involvement of stakeholder groups is crucial to each stage of the process. AA1000 does not prescribe what should be reported on but rather the 'how'. In this way it is designed to complement the GRI reporting guidelines.

A new series of five *specialised modules* is currently being developed building on the AA1000 framework. Each module will be able to be used on its own. The five modules in AA1000S will cover: AA1000S assurance standards; governance and risk management; measuring and communicating the quality of stakeholder engagement; integration of accountability processes; accountability for small and medium-sized organisations. The first of them, the AA1000 assurance standard for social and sustainability reporting, was launched in March 2003 — see the chapter on reporting (www.accountability.org.uk/aa1000/default.asp).

▲ ISO CR MSS (ISO corporate responsibility management system standards)

The report on the feasibility and desirability of developing ISO corporate responsibility management standards (ISO CR MSSs) prepared by the ISO Consumer Policy Committee (ISO Copolco) was presented in June 2002. An online forum was also set up to give a wide range of parties an online platform for discussion on CSR issues and the possibility to comment the draft report.

The report indicates that ISO CR MSSs could build on the intellectual and practical infrastructure of ISO 9000 and ISO 14000 and would include commitments to the concept of continual improvement, to stakeholder engagement and to transparent, accountable reporting on CSR activities. The report also suggests five fundamental elements to effective CSR approach:

- identification and selection of relevant substantive CSR norms and principles;
- techniques for engaging the full range of stakeholders;
- processes and systems to ensure effective operationalisation of CSR commitments and objectives, and measurable, verifiable results;
- techniques for verification of progress toward CSR commitments and objectives;
- techniques for stakeholder and public reporting and communication.

Furthermore, amongst the key components of ISO CR standards would be management requirements or guidance concerning:

- compliance with all rules and regulations of the jurisdiction in question and relevant international norms pertaining to environmental, consumer, fair labour standards, human rights and health and safety protection;
- processes for effective stakeholder engagement;
- development, implementation and communication of CSR policies, including on anti-bribery and corruption issues;
- training of the workforce, including executives and management;
- relations with communities, philanthropy, outreach and involvement;
- measurement and regular reporting to the full range of stakeholders and the general public.

As with ISO 9000 and ISO 14000, firms could either self-declare compliance with the proposed ISO CR MSSs or could seek certificates from authorised third parties.

An advisory group on social responsibility was established in early 2003 to help the ISO decide whether an eventual ISO involvement in CSR would add value to already existing initiatives. The group comprises representatives from business, government, labour, consumers and non-governmental organisations from around the world.

NB: The development of ISO CSR standards is far from being consensual. If from one side, some see the benefits of using a practical, internationally standardised approach to CSR implementation, which would offer the prospect of meaningful, verifiable and measurable claims by firms about progress towards CSR objectives, many question the added value of such a standard, for different reasons. There is a fear that substantial costs of development, certification and implementation of ISO CR MSSs will far outweigh any added value to a firm. Moreover, because they are designed to be used by firms of all shapes and sizes around the world, global ISO CSR standards risk being either meaningless or too complex to manage. Some see the ISO as offering little opportunities for effective trade union participation and would rather leave the task to the ILO, which is the only competent body to develop international norms on labour relations though a tripartite process. Some others fear that because they are process standards, ISO management standards do not provide any guarantees that particular levels of behaviour will be met and will thus give a false assurance of CSR to a firm's stakeholders. For instance, companies with poor social responsibility track records could hide behind the ISO standard, neglecting to comply with all fundamental workers' rights. Others believe that self-declaration may diminish the acceptability of the ISO CR MSSs option because of the decreased control over the claims made. On the other side, third-party certification is rather costly and firms that cannot afford it (mainly from developing countries) may be put at a competitive disadvantage.

In June 2004, following the ISO Conference on Social Responsibility, the ISO Technical Management Board (TMB) agreed that ISO could add value by developing a guideline standard on Social Responsibility (SR), to be named ISO 26000. It also set up a Working Group on Social Responsibility (WG SR) to carry out the work, which was launched in Brazil on 28 October 2004.

As all new areas of standardization must be approved by the full ISO membership in a vote on a New Work Item Proposal (NWIP), a NWIP on the SR standard was finalized and distributed to the ISO Membership on 7 October 2004. ISO Member bodies now have 3 months (7 January 2005) to vote on the NWIP. The full text of the NWIP on SR is available on the ISO Website at
http://www.iso.ch/iso/en/info/Conferences/SRConference/nwip.htm.
(www.iso.ch/iso/en/commcentre/pressreleases/2002/Ref826.html)
(www.iso.org/iso/en/commcentre/presentations/wkshpsseminars/copolco/copolco2002/cop2002report.pdf)

2.5.3. Environmental management standards

▲ EMAS (Eco-management and audit scheme)

The Eco-management and audit scheme (EMAS) is a voluntary scheme launched by the European Commission in 1995 with the aim to promote continuous improvement of organisations' environmental performance. It can apply to any organisation, whether from the public or private sector, industry or services sectors.

A number of actors share responsibility for implementing and promoting EMAS in the EU. TheCommission ensures a proper implementation of EMAS, promotes collaboration between the Member States and keeps a register of environmental verifiers and EMAS registered organisations. The *Article 14 Committee* is EMAS's Steering Committee which regroups representatives from the Commission, Member States, and interest groups such as industry, unions and environmental NGOs. The *EMAS helpdesk* is responsible for collecting information from Member States and provides promotional and information services to all interested parties.

EMAS is open to Member States of the European Union and the European Economic Area (Norway, Iceland and Liechtenstein). An increasing number of new Member States and candidate countries are also implementing the scheme in preparation for their accession. Member States are responsible for establishing EMAS within their country and informing regularly the Commission on the implementation of the scheme. They designate and supervise the national competent body, which organises the registration process of sites within their own territory, and the accreditation body, which establishes a list of environmental verifiers and their scope of accreditation. EMAS verifiers are organisations or individuals with expert knowledge in the field and are independent of the organisation being verified.

Member States can also provide special technical assistance to SMEs. Consistency of national procedures concerning the registration and verification processes is ensured by peer reviews of all competent and accreditation bodies, which meet on a yearly basis.

Registration in the scheme requires the organisation to adopt an environmental policy containing the following commitments: compliance with all relevant environmental legislation; prevention of pollution; achieving continuous improvement. In order to receive EMAS registration, the scheme requires that an *initial environmental review* be performed to identify the impact and performance of the organisation's activities, products and services on the environment. The organisation is then required to establish an effective environmental management system (EMS) on the basis of the review aimed at improving its environmental performance. Finally, a statement of environmental performance must be provided by the organisation. The environmental review, EMS, audit procedure and the environmental statement must be approved by an accredited EMAS verifier and only after this process can the organisation be registered with the competent body and use the EMAS logo. Environmental audits, covering all activities of the organisation concerned, are conducted within a cycle of three years.

In 2001, the scheme was revised, extending the scope for participation to all sectors of economic activity, introducing a reporting element and a requirement to involve employees in the implementation of the scheme, as well as incorporating ISO 14001 as the environmental management system required by EMAS (http://europa.eu.int/comm/environment/emas/about/summary_en.htm).

▲ ISO 14000

Besides the more than 300 ISO standards on specific environmental issues (e.g. air, water and soil pollution), the ISO published in 1996 the ISO 14000 series of standards and guidelines in the field of environmental management, which aims to enable an organisation to develop a structured approach to control the impact of its activities, products or services on the environment.

ISO 14000 grew out of the ISO's commitment to support the objective of 'sustainable development' discussed at the 1992 Earth Summit in Rio. The standards are the result of the work of the technical committee with the participation of delegations of business and government experts from 55 countries, chosen by the national standard institutes concerned.

ISO 14004 provides guidelines on the elements of an environmental management system and its implementation, while ISO 14001 specifies the requirements for such an environmental management system against which an organisation can seek certification addressing not only the environmental aspects of an organisation's process, but also those of its products and services (ISO 14001 is the only certifiable standard, the others being supportive guidelines). Conformity assessment with the standard can be carried out by an external stakeholder, such as a business client, while *certification* of conformity is only awarded by an independent certification body. Specifically on the issue of communicating environmental performance, the ISO 14020 series addresses a range of different approaches to environmental labels and declarations, including self-declared environmental claims, eco-labels and quantified information about environmental aspects of products and services, while ISO 14063 provides guidelines on how environmental performance can be communicated. The ISO 14000 standards *do not specify levels of environmental performance* (but the ISO 14030 series provides guidance on how an organisation can evaluate its environmental performance). The ISO 14040 series focus on principles, frameworks and methodological requirements for life cycle assessment of products and services.

Finally, a new auditing standard, ISO 19011, provides guidance on environmental management system auditing (e.g. principles of auditing, competence of auditors) - (www.iso.org/iso/en/iso9000-14000/iso14000/iso14000index.html).

▲ EMAS *v* ISO 14001

Both EMAS and ISO 14001 have the common objective of providing for good environmental management yet they are often seen as competitors. In 1996, when ISO 14000 was published, the European Commission recognised ISO 14001 as a stepping stone towards achieving EMAS. Thus, the adoption of ISO 14001 as the management system element of EMAS allows an organisation to progress from ISO 14001 to EMAS without duplicating its efforts. EMAS goes beyond ISO 14001 as it requires organisations to undertake an initial environmental review; to actively involve employees in implementing the scheme and to make available relevant information to the public and other parties. Also, because EMAS has legal status within Member States, it can take a more prescriptive approach to environmental management issues.

	EMAS	ISO 14001
Preliminary environmental review	Verified initial review	No review
External communication and verification	Environmental policy, objectives, environmental management system and details of organisation's performance made public	Environmental policy made public
Audits	Frequency and methodology of audits of the environmental management system and of environmental performance	Audits of the environmental management system (frequency or methodology not specified)
Contractors and suppliers	Required influence over contractors and suppliers	Relevant procedures are communicated to contractors and suppliers
Commitments and requirements	Employee involvement, continuous improvement of environmental performance and compliance with environmental legislation	Commitment of continual improvement of the environmental management system rather than a demonstration of continual improvement of environmental performance

2.5.4. National initiatives

▲ AFNOR SD 21 00 — Guidelines on sustainable development — France

AFNOR, the French standardisation body, published in 2002 the *SD 21 00 guide*, which includes recommendations to help companies integrate and implement sustainable development objectives in their overall strategies and management. These recommendations are not meant to be the object of certification.
In March 2002, at the request of public authorities (pertaining to solidarity and economy), AFNOR also created a working group to develop a *standard on fair trading*. The group is currently working on the definition and the characteristics through the entire supply chain from producers in the south to the consumer, in association with all the actors (www.afnor.fr).

▲ AENOR PNE 165001 (draft ethical financial instruments) and PNE 165010 (draft ethical management systems standards) — Spain

In March 2001, the Spanish government authorised AENOR, the national standardisation body, to investigate the opportunity of standardisation in the field of ethics. A Spanish Technical Committee on Ethics was set up with the task to develop draft standards on an *Ethical management system* (PNE 165010) and on *Ethical financial instruments* (PNE 165001).

The PNE 165010 standard on *Ethics — Corporate ethical management systems — Performance requirements for enterprises' ethical and social responsibility* is intended to provide guidelines for ethical, social and environmental responsibility in firms allowing them to develop, maintain and fulfil a code of conduct necessary to manage these aspects suitably, and to demonstrate to stakeholders that this code conforms to the principles and requirements of the standard.

The PNE 165001 standard on *Ethics — Requirements for ethical and socially responsible financial instruments* is intended to provide general guidelines to organisations that try to create or commercialise ethical and socially responsible financial instruments and to guarantee the maximum transparency and publicity of these ethical criteria to the stakeholders. The draft specifies the requirements that the different instruments must fulfil (www.aenor.es).

▲ The SIGMA project (sustainability integrated guidelines for management) — UK

The SIGMA project was launched in 1999 by the British Standards Institution (BSI), the Forum for the Future (a sustainability charity and think-tank), and AccountAbility, with the main funding of the UK Department of Trade and Industry (DTI). The aim of the project is to create a management framework to help organisations become more sustainable. At the heart of the project is the development of a set of guidelines (*the SIGMA guidelines*) composed of a set of *principles* that help organisations understand the parameters of sustainability, a *management framework* that integrates sustainability into core processes and mainstream decision-making, and a series of *tools* which organisations can use to implement effective strategies and culture change.

The SIGMA principles are: accountability (ensuring that organisation's stakeholders are engaged in on-going dialogue with the organisation); capital enhancement (encouraging organisations to go beyond simply minimising the negative aspects of their operations); and environmental sustainability. In addition, the guidelines provide a series of questions that organisations should ask themselves about their performance and practices, structured around six key stakeholders (employees, customers, suppliers, community, investors, government and civil society). The *SIGMA management framework* is a process-driven implementation tool defining 10 key phases that can be used to design, implement and maintain sustainability management within the organisation. These include: awareness; baseline review; actions, impacts and outcomes; legal requirements; strategic planning; communication and training; control and influence; monitoring and feedback; reporting progress; strategic review. The *SIGMA toolkit* contains a number of tools such as a management framework questionnaire, a sustainability scorecard, the business case for sustainability, an environmental accounting tool and a stakeholder engagement tool based on AA1000.

The guidelines are currently being tested by project partners in the private and public sector (www.projectsigma.com/).

▲ Investors in people — UK

Investors in people is a UK standard which sets a level of good practice for training and development of people to achieve business goals. The standard was developed in 1990 by the National Training Task Force in partnership with national professional and employee organisations such as the Confederation of British Industry (CBI), Trades Union Congress (TUC) and the Institute of Personnel and Development (IPD). The work was supported by the UK Employment Department.

The standard provides a national framework for improving business performance and competitiveness, through a planned approach to setting and communicating business objectives and developing people to meet these objectives. The process is cyclical and should engender a culture of continuous improvement.

The 'Investors in people' standard is based on four key principles:

- *commitment* to invest in people to achieve business goals;
- *planning* how skills, individuals and teams are to be developed to achieve these goals;
- taking *action* to develop and use necessary skills in a well-defined and continuing programme directly tied to business objectives;

- *evaluating* outcomes of training and development for individuals' progress towards goals, the value achieved and future needs.

These four key principles are a cyclical process and are broken down into 12 indicators, against which organisations wishing to be recognised as an 'Investor in people' will be assessed.

Being recognised as an 'Investor in people' involves a number of steps, including: undertaking a review against the standard to identify any gaps in current practice; making the commitment to meet the standard and communicating that commitment to all members of staff; bringing together the evidence for assessment against the standard; working to keep the culture of continuous improvement alive.

Evaluators are chosen for their broad business background and generally work as independent consultants (www.iipuk.co.uk).

▲ The Q-RES project (management framework for the ethical and social responsibility of corporations) — Italy

The Q-RES project, launched in 2000 by CELE, the Centre for Ethics, Law & Economics of the LIUC University in Italy, aims to create *a management framework for the ethical and social responsibility (RES) of corporations*, externally certifiable.

Several Italian leading companies in different industrial sectors, professional associations (e.g. Association of Internal Auditors), accountancy firms and business organisations (e.g. Sodalitas), participate in the project. At international level, a link has been established with the SIGMA project (see above).

The Q-RES model consists of an integrated and complete set of tools to introduce ethics into corporations along with defining excellence criteria in the management of social and ethical responsibility, taking into consideration emerging international standards and current best practice. The Q-RES management model includes six building elements for managing the social and ethical quality of corporations.

1. *Corporate ethical vision:* The corporate ethical vision defines and makes explicit the concept of justice within a company, from which arises the criterion to balance stakeholders' claims. On this concept of justice is founded the responsible behaviour that the company has to set and follow in its relations with stakeholders.
2. *Code of ethics:* Corporate codes of ethics are the main tools to implement social and ethical responsibility in the context of a business organisation. Their function goes beyond the role of the legal system, which guarantees the company's hierarchical structure and defines its limits through legal protection of ownership and civil and economic rights.
3. *Ethical training and communication:* Ethical training in a company is directed to the company employees and aims at enabling each company member to apply moral reasoning tools to discuss and tackle ethical questions connected with corporate activities.
4. *Organisational systems of implementation and internal control:* Organisational systems of implementation and monitoring are the ethical infrastructure which is needed to support an effective implementation of corporate social and ethical responsibility.
5. *Social and ethical accountability:* The process of social and ethical accountability aims at enlarging the perspective of corporate social communications from relations between the company and shareholders to relations between the company and all its stakeholders, in the social contract perspective.
6. *External verification:* Verification by a third party provides trustworthiness to the company's declarations concerning its commitments on social and ethical responsibility (www.liuc.it/ricerca/cele/qres.pdf).

2.5.5. Sectoral initiatives

▲ FORGE — 'Guidelines on environmental management and reporting for the financial services sector' — UK

The 'Guidelines on environmental management and reporting for the financial sector' were issued in 1999 by the FORGE Group, a consortium of financial institutions, in cooperation with the BBA (British Bankers Association) and the ABI (Association of British Insurers) and with the support of the UK Department of Trade and Industry. They provide guidance on how to set up management processes that reduce environmental impacts and risks. A wide range of organisations were also consulted in the drafting; these include pressure groups like Friends of the Earth and the World Wild Fund, regulatory organisations and specialist trade associations.

The guidelines follow the management system and reporting principles presented in ISO 14001 and EMAS, but have been refined and adjusted to reflect the specific requirements and characteristics of the financial services sector. They include the following steps:

- planning for system implementation — the early decisions before developing a programme; making fundamental decisions on scope, timeframe and approach;
- phasing system implementation and development — deciding where to start, what to consider when determining programme development and roll-out;
- implementation toolkit — guidelines for the individual/team responsible for the development of a complete management system. This is presented as individual stages, with tips for implementation:

  1. develop the evidence,
  2. obtain board approval,
  3. complete an environmental review,
  4. draft the group environment policy and objectives,
  5. design the environmental management system (EMS),
  6. implement and operate the EMS,
  7. audit the EMS,
  8. report to the board,
  9. prepare environmental reports (internal and external).

The guidelines are for voluntary adoption and no form of certification associated with them is foreseen. Their primary intended audience is the UK financial services sector. However, international environmental management and reporting guidelines are currently being developed by the United Nations Environment Programme (UNEP), and in this context the FORGE guidelines could be a useful starting point (www.abi.org.uk/forge/ForgeText.htm).

▲ FORGE — 'Guidance on corporate social responsibility management and reporting for the financial services sector' — UK

In November 2002, the FORGE Group issued new 'Guidelines on corporate social responsibility for the financial services sector'. The guidelines aim to provide practical help to the financial services sector in addressing management and reporting on a wide range of CSR issues.

The FORGE guidance has been developed by eight financial services companies supported by three government departments and in consultation with seven stakeholder organisations and with the support of the British Bankers' Association and Association of British Insurers. The guidance provides practical advice on implementing CSR management and reporting processes — across the organisation and within individual functions/business units.

The guidance is a first, and to an extent aspirational step; it will need to be revised to reflect new and continuing learning as the financial services sector understands the impact of CSR and implements a response (www.bba.org.uk/public/corporate/35475/61264?version=1).

3. Reporting

3.1. Introduction

The recent increase in corporate sustainability reporting — covering the economic, environmental and social performance of an organisation — is linked to the demand for greater accountability and transparency of companies: key stakeholders not only expect businesses to take account of their social and environmental impact, but also want to be informed on how they are performing in these areas.

Sustainability reporting has undergone a rapid evolution: corporate reporting on environmental and health and safety performance has been developing since the late 1970s, as a complement to the traditional annual report. More recently, with the growing recognition of the need to address the 'triple bottom line' of sustainable development, social and ethical considerations have been added to environmental issues.

Whereas the sustainability report is the end-product, there are different phases in reporting: the *accounting or measurement* process concerns the collection and evaluation of data to measure the company's social and environmental performance against specific indicators, while the *auditing or assurance* process is the verification and assessment of the information given in the report (*verification statements* often accompany the report).

The accounting process in this field is linked to the development of *key performance indicators*. To date, efforts to measure and report a company's impact on society have largely focused on environmental practices, while social performance indicators are still at an early stage of experimentation.

Unlike financial reporting, sustainability reporting includes a lot of qualitative information, where measurement is difficult. When the first sustainability reports were published, there were few defined parameters for their content and form. Metrics and evaluation methods are, however, growing in number and sophistication to allow for more objective measurement and comparability. In this context, various organisations are developing standards and guidelines for social and environmental accounting, reporting and assurance, ranging from voluntary to mandatory, single-issue to multiple-issue, process to performance standards (see 'Relevant initiatives' below).

3.2. Drivers and benefits

In today's globalised knowledge economy, communication and transparency are essential for companies. Among the main drivers that push companies to report are shareholder and stakeholder pressure, legal compliance, competitive advantage and public relations.

The investor community: a powerful driver for transparency

The financial community is a key driver for enhanced transparency and more effective reporting of companies. An increasing number of investors — both private and institutional — are demanding more accurate information on companies' environmental and social performance to guide their investment decisions, as they believe that good performance in these areas can affect the overall performance.

A great challenge ahead is how to bridge the gap between companies' reporting practices and the information requested in rating agencies' questionnaires to evaluate the companies' performance.

Social and environmental reporting is both a *communication tool*, addressed to the internal and external stakeholders of the company, and a *management tool*, enabling the company to have a more systematic approach to sustainable development, measuring progress and defining the strategy and targets for improvement.

It is fair to note that many businesses still regard sustainability reporting with suspicion, fearing that more transparency could lead to more — not fewer —questions. Still, those that are engaged in reporting list amongst the benefits enhanced corporate governance and reputation, better stakeholder relations, improved business performance and quality management systems.

3.3. Key issues

Flexibility v comparability: which reporting format?

Companies' approaches to reporting are as varied as their approaches to CSR: the nature of each report depends upon the variety of issues covered; the range of stakeholders for whom it is intended; and the aim of the reporting organisation. While flexibility may contribute to ensure that reporting is appropriate to each individual business, there is a need of a certain consistency within particular sectors and for businesses of similar size in order to allow for effective benchmarking of companies' performance.

In this context, it is necessary to develop greater consensus on the type of information to be disclosed; on how that information is collected, analysed and presented and on the reliability of the evaluation and audit procedure.

Materiality

For effective reporting, core data need to be relevant or *material* to the business objectives, meaningful for the stakeholders, cover significant issues in all geographical areas of the company's operations and show progress over time. The concept of materiality refers to the content of reporting which should cover all the issues enabling information users to evaluate the organisation's overall sustainability performance. '"Material" information is that which, if omitted or misstated, would significantly misrepresent the organisation to its stakeholders, and thereby influence their conclusions and decisions [3]. The identification of material issues is not always an easy task, as different stakeholders can have different views on the significance of the same sustainability disclosure.

The role and challenges of non-financial indicators

Social and environmental indicators help companies translate their broad commitments to corporate social responsibility into concrete and measurable objectives, improving the effectiveness of their policies and management systems. Moreover, non-financial indicators can help identify links between social and environmental performance and the financial bottom line, which is important for the further uptake of corporate social responsibility.

As of today, there is insufficient consensus on indicators between the different stakeholders (e.g. what constitutes a *living* wage in different cultures and countries). Developing indicators that are meaningful both to the company and its different stakeholders presents many challenges, including the definition of *what* to measure and what is meant by *good* performance.

Impact of reporting

As the number of sustainability reports increase, there is growing concern about their value for both companies and their stakeholders. Some of the important questions that arise are listed below:

- Is reporting a means or an end? To whom is it addressed? Who are the key audiences that engage with the reports' content?
- Does reporting really contribute to drive change and improve practices, or is it merely focused on increasing scores?
- What is the *impact* of reporting on business behaviour, decisions, performance, and engagement with stakeholders? Does it result in more systemic approach to sustainability and enhanced accountability?

(3) 'Redefining materiality', AccountAbility discussion paper in cooperation with the UK Social Investment Forum, April 2003.

More information is not per se a guarantee of effective progress on the ground and more transparency does not always entail more awareness. Moreover, reporting is only the tip of the iceberg. The key challenge is to integrate sustainable development issues into mainstream business processes and decision-making.

Verification or assurance

'Assurance is an evaluation method that uses a specified set of principles and standards to assess the quality of an organisation's reports, and the organisation's underlying systems, processes and competencies that underpin its performance. Assurance includes the communication of the results of this evaluation to provide credibility to the subject matter for its users.' AccountAbility (www.accountability.org.uk/uploadstore/cms/docs/Assurance %20Standard %20for %20Web.pdf).

Statements by corporate management on the company's social and environmental policies and practices are not sufficient to gain the trust of stakeholders. Independent verification of reports is one way in which companies are addressing this lack of trust. Verification of reports should provide assurance that the company has reported honestly and fairly, together with an assessment of the quality of its social and environmental reporting systems.

As with traditional financial auditing, verification addresses both the *content* of the social or environmental report and the *reporting process*. It is important to note that verification assesses the *quality* of the information presented and the management systems behind it (e.g. in terms of completeness, accuracy, reliability rather than the company's actual social or environmental performance).

Moreover, verification of social and environmental reports often balances quantitative evaluation (e.g. data checking or review of information processes for accuracy) with qualitative evaluation (e.g. the accessibility of the report for readers).

At the time, there are no widely accepted standards for verification or 'assurance' of sustainability reports and different independent quality assurance models and services use a variety of methods and processes. Verification, however, usually includes audits and reviews, and results in formal statements — annexed in the company report. A thorough verification should also look at how the social and environmental reporting processes are embedded in everyday operations of a company, with a view to building an additional level of quality and accountability into existing systems.

The question of *who* verifies companies' sustainability reports is also very important: in this regard, the involvement of professional and impartial *assurance providers* (accountants, consultants, social auditors or other stakeholders), ideally independent of corporate control and accountable to the public, is key to the credibility of the assurance process.

Lessons learned from financial auditing standards

National and international financial audit standards: A number of verification statements published in corporate social and environmental reports make reference to principles or guidelines provided by financial accounting and auditing organisations. For example, the Auditing Practices Board (APB), based in the UK, publishes statements of auditing standards with which financial auditors are required to comply in the conduct of audits. Separately, the APB has drafted 'The auditor's code' which outlines nine fundamental general principles that should form the basis of audit practice. This code, which includes the principles of accountability, objectivity, rigour and providing value, does not in itself form part of the auditing standards. However, as a more general document, it can have easier application to non-financial verification.

At international level, the **International Federation of Accountants** (IFAC) an organisation of national professional accountancy organisations that represent qualified public accountants, publishes international standards on auditing, in addition to international auditing practice statements. Both of these may be used for guidance on the general principles of auditing and the process of verification.

International Audit Practices Committee (IAPC): The Committee is part of IFAC. Recognising the differences in national auditing standards, the IAPC has developed international standards on auditing that can be applied to the practice of financial audit internationally. However, they contain standards and principles that can be applied and adapted to the audit of non-financial information.
Source: BSR (http://www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=440).

The FEE (Fédération des Experts Comptables Européens) is the representative organisation for the accountancy profession in Europe. FEE has been drawing on the expertise of the European accountancy profession to improve the quality and credibility of new forms of reporting, in particular environmental reporting. It has recently published a discussion paper on providing assurance on sustainability reporting (www.fee.be).

Voluntary v mandatory reporting

Sustainability reporting is still largely a voluntary exercise. Yet new requirements calling for reporting on aspects of sustainable development performance are being introduced in corporate accounting and disclosure laws. This trend is likely to amplify, along with pressure for independent assessment of reported information.

The Nike v Kasky case

The lawsuit against Nike brought by Marc Kasky, a Californian activist, over claims that statements the company made in letters to newspapers and press releases [4] relating to work conditions in some of its suppliers' factories were 'misleading advertising' had raised great interest and concerns for the potential legal precedent that it could establish. At stake it was to determine whether companies' statements on human rights and other public policy issues — in reports, labels or other forms or communication— should be considered as 'free speech' and thus protected under freedom of speech guarantees, or 'commercial speech', thus not falling under the US First Amendment and subject to regulations on false advertising.

In the event, the US Supreme Court refused to rule on this point, and Nike has agreed to settle the lawsuit and pay USD 1.5 million to the Fair Labour Association — an independent coalition that seeks to improve factory conditions and monitoring. In response, Kasky has agreed to withdraw the suit.

Decision on the case was believed by many as determinant for the future of corporate sustainability reporting: on one side were those fearing that it could make organisations more reluctant to report (for fear of been sued), and on the other side those fearing that it could undermine the ability to require accurate reporting from companies [5]. Some also argued that it could rapidly accelerate the take-up of agreed standards on reporting. The settling of the case has left the legal merits of both sides untested. Interestingly, NIKE has advocated for the need to have a level playing field, which according to the company can only be accomplished with standards and universally applied processes for accountability and reporting.

(4) In the mid-1990s Nike launched a public relations campaign against charges that workers in its Asian suppliers were subjected to physical abuse, hazardous work conditions and very low wages. Company officials made public statements — such as letters to newspaper editors and sponsors — claiming that Nike had redressed the situation, but in 1997 a Nike-commissioned Ernst & Young audit leaked to the public indicated the abuses continued. In 1998, Kasky sued Nike under California's stringent false advertising and unfair business practice laws. Lower courts sided with Nike but the California Supreme Court overruled them in May 2002. The California Court had ruled that any communications to an audience that might include purchasers was 'commercial speech', including statements of important public policy positions. Nike had then appealed to the US Supreme Court. Nike also decided not to issue its corporate responsibility report externally for the 2002 fiscal year.
(www.nike.com/nikebiz/news/pressrelease_print.jhtml?year=2003&month=09&letter=f).
(5) On that, it is interesting to note that the Domini Social Investments submitted an Amicus brief to the Supreme Court in support of Kasky arguing that social disclosure should be subject to the same legal requirements as financial disclosure (www.domini.com/common/pdf/Amicus-Brief-4-03.pdf).

3.4. Recent developments at EU level

On 27 October 2004, the European Commission adopted a proposal for a **Directive concerning annual accounts**. This Directive proposal (COM(2004) 725) indicates that EU-based listed companies must disclose an annual corporate governance statement as part of their annual report. The Directive also indicates that within their corporate governance statement and where relevant, companies may also provide an analysis of environmental and social aspects necessary to understand their development, performance and position. While not mandating reporting on CSR issues, the Directive recognizes the relevance of environmental and social issues in the context of corporate governance.
http://europa.eu.int/comm/internal_market/accounting/otherdocs_en.htm

▲ In its communication entitled **'Corporate social responsibility: a business contribution to sustainable development'**, COM(2002) 347, the Commission invited the European Multistakeholder Forum on CSR to develop commonly agreed guidelines and criteria for measurement, reporting and assurance by mid-2004. The CSR Forum presented the Commission a final report with its conclusions on 30 June 2004.
http://forum.europa.eu.int/irc/empl/csr_eu_multi_stakeholder_forum/info/data/en/CSR%20Forum%20final%20report.pdf

▲ In its **report on the Commission Green Paper** on promoting a European framework for corporate social responsibility, the **European Parliament** has invited the Commission to bring forward a proposal in the appropriate directive (the fourth company law directive) for social and environmental reporting to be included alongside financial reporting requirements[6].

▲ In its **communication on the EU strategy for sustainable development**, COM(2001) 264, the Commission invited all publicly quoted companies with at least 500 staff to publish a 'triple bottom line' in their annual reports to shareholders that measures their performance against economic, environmental and social criteria.

▲ In 1998, the **High-Level Group on Economic and Social Implications of Industrial Change** set-up at the invitation of the European Council, invited companies of more than 1 000 employees to publish voluntarily a 'Managing change report', i.e. an annual report on employment and working conditions (e.g. employee consultation and social dialogue, education and training, health and safety, equal opportunities) to be developed in consultation with employees and their representatives in accordance with national traditions.

(6) Final report on the Commission's Green Paper on promoting a European framework for corporate social responsibility, A5-0159/2002, Rapporteur Richard Howitt, 30 April 2002 (http://wwwdb.europarl.eu.int/oeil/oeil_ViewDNL.ProcedureView?lang=1&procid=1871)

3.5. Relevant initiatives

National public initiatives
- France
- Denmark
- Netherlands
- Sweden
- UK

Multistakeholder initiatives
- Global Reporting Initiative
- Governance
- Guidelines, technical protocols and sector supplements
- 2002 GRI reporting guidelines
  - Reporting principles
  - Report content
  - Performance indicators
  - Assurance
- AA1000s (AccountAbility assurance standard)

Others
- CDJES 'Bilan sociétal'
- BITC corporate impact reporting initiative

3.5.1. National public initiatives

Public initiatives are increasingly supporting the development of social and environmental reporting. *France* became in 2001 the first country to mandate triple bottom line reporting for publicly listed companies with the adoption of the law on *new economic regulations* (Law No 2001-240, Art. 116) requiring all listed companies to take into account the 'social and environmental consequences' of their activity in their annual report (starting with their 2003 annual report for the previous financial year). The law applies to French quoted companies at group level and internationally. It requires companies to report against a set of qualitative and quantitative indicators encompassing human resources, community and labour standards, H & S and environmental issues, but does not provide guidelines for reporting. The law is currently being revised due to problems raised by companies in its implementation, as they have pointed out that it fails to adequately define specific indicators and the perimeters of the reporting requirements.

In several other jurisdictions (e.g. Denmark, the Netherlands, Norway and Sweden) legislation is now in place to require environmental statements from certain types of industry — either within their financial accounts or in a stand alone 'green account'. Other countries (e.g. the UK) have developed guidelines for environmental reporting.

▲ Reporting in France
According to Article 116 of the French new economics law, the following *social information* must appear in the report of the board or of the executive board.

1. (a) Total workforce, recruitments with a distinction between fixed-term contracts and permanent contracts and an analysis of the possible difficulties in recruiting, of redundancies and their motives, of overtime, of subcontracted labour.
   (b) If need be, information relating to staff reduction and employment safeguard plans, to the efforts made for staff redeployment, re-employment and subsequent accompanying measures;

2. Organisation of working hours, their duration for full-time and part-time wage earning employees, absenteeism and its motives;
3. Wages and their evolution, welfare costs, the application of Title IV, Book IV of the Code of Labour, professional equality between women and men;
4. Industrial relations and the assessment of collective bargaining agreements;
5. Health and safety conditions;
6. Training;
7. Employment and integration of disabled workers;
8. Company benefits and social schemes;
9. Importance of subcontracting.

The following information on the *environmental consequences* of the activity of the company must appear in the annual report.

1. Consumption of water resources, of raw materials and energy and description, if need be, of the measures taken to increase energy efficiency and the use of renewable energies, conditions of soil use, air–water–soil pollution emissions that could affect dramatically the environment, the list of which will be determined by an order of the Ministry for the Environment and for Industry, noise and all factory pollution and waste;
2. Measures taken to limit damage to biological balance, to the natural environment, to protected animal and vegetal species;
3. Assessment or certification actions taken in terms of environmental protection;
4. Actions taken, if need be, to ensure the conformity of the company's activity with the legal provisions in that field;
5. Expenditures made to prevent the consequences of the company's activity on the environment;
6. Existence within the company of internal departments in charge of environmental management issues, training and information of employees on these issues, means dedicated to the reduction of environmental risks as well as the organisation put in place to deal with pollution accidents that have consequences beyond the company's sites;
7. Amount of provisions and guarantees allocated for environmental risks unless this information is likely to cause a serious prejudice to the company in an ongoing lawsuit;
8. Amount of compensation for environmental damages paid during the fiscal year in execution of a court order and measures taken to repair these environmental damages.

Moreover, corporations are required to report on *community issues*. Specifically, they must report on the way they take into account the impact of their activities on local development and local populations and report on how they engage with local stakeholder groups such as social and environmental NGOs, consumer groups, educational institutions and local communities. As for *labour standards*, corporations have to report on the way in which their international subsidiaries respect the ILO core labour conventions and the way in which they promote the ILO conventions with regard to their international subcontractors and subsidiaries.

▲ Reporting in Denmark

- The Ministry of Social Affairs released in August 2001 a set of *guidelines for social and ethical reporting* aimed at both private and public organisations who wish to report on the social impact of their activities (www.bm.dk/publikationer/2001/socialetiske_regnskaber/socialetiske_regnskab.pdf).
- The Ministry of Environment and Energy issued in December 1995 a statutory order on the duty of certain activities (the most polluting) to draw up green accounts, mandating environmental reporting on more than 3 000 companies.

The categories of listed activities (e.g. production, processing, surface treatment of iron, steel, metals, wood and plastic; extraction and processing of mineral oil, mineral oil products, natural gas; chemical production; power and heat generation; motor racing tracks and airfields) are required to submit a statement of green accounts to the *Danish Commerce and Companies Agency* each year. The statement of green accounts shall include information on aspects relating to the occupational environment, as regards polluting substances etc. used in the production processes, to the extent they present a risk to the safety and health of the company staff (www.mst.dk/rules/Ministerial %20Orders %20in %20force/Products %20and %20technology %20in %20force/02050900.doc).

▲ Reporting in the Netherlands

- Since 1999, Dutch companies belonging to the most polluting sectors are required to report to the government and the general public on their environmental performance (e.g. on emissions).
- Following the Social and Economic Council recommendations on CSR, the Dutch government has requested advice to the Council for Annual Reporting on how social aspects can be integrated into corporate annual reports. A multistakeholder task force on CSR was then set up under the Council for Annual Reporting to develop a set of *Dutch reporting guidelines* which were released in 2003 after extensive stakeholder consultations. The guidelines focus on a number of key general issues and are meant as a kind of introduction to social reporting for interested companies in the Netherlands (www.rjnet.nl).

▲ Reporting in Sweden

- In 2000, the Swedish government issued guidance on reporting for 60 State-owned companies.
- Since 1999, companies requiring a licence must include in their annual financial accounts information on their environmental impact (e.g. on emissions to air, water, use of manufactured chemicals). This provision applies to more than 20 000 sites.
- Since 1997, government agencies have had to integrate environmental management systems and report annually on their progress.

▲ Reporting in the UK

- In July 2002, the UK government issued a *White Paper on modernising UK company law* to seek views on core proposals for the reform of company law (the consultation period ended on 29 November 2002). Amongst others, the White Paper refers to the need for more qualitative and forward looking reporting: the annual *operating and financial review* (OFR) is essentially a review of the company's performance and consists of a statement of the current position of the company and a forward-looking statement about the trends and factors that are going to affect the company's performance in the future, to be included within the reports and accounts of companies. The paper also foresees more accountability of company directors for issues covered in the OFR. While it is up to them to decide what information is material to their business, directors might ultimately need to defend their reporting statements and process before the courts. The Operating and Financial Review (OFR) will apply to all UK listed companies for financial years beginning 1st January 2005. The Accounting Standards Board is charged with producing detailed guidance for reporting in the course of 2005. (www.dti.gov.uk/companiesbill/whitepaper.htm).
- In October 2001, the UK government issued a set of *guidelines on corporate environmental reporting* (e.g. greenhouse gas emissions, waste and water use), following a call by Prime Minister Tony Blair for all top firms to start issuing environmental reports (www.defra.gov.uk/environment/envrp /general/index.htm).

3.5.2. Multistakeholder initiatives

▲ Global Reporting Initiative

The Global Reporting Initiative (GRI) is a multistakeholder initiative whose mission is to develop and disseminate a global framework of sustainability reporting guidelines for voluntary use by organisations and encompassing the economic, environmental and social dimensions of their activities, products and services. The GRI was started in 1997 by the Coalition for Environmentally Responsible Economies (CERES) and the United

Nations Environment Programme (UNEP). Since 2002, the GRI has been an independent organisation with headquarters in Amsterdam, the Netherlands.

The GRI framework for reporting includes *reporting principles* and *specific content indicators* to guide the preparation of organisation-level sustainability reports.

Governance

The *Board of Directors* incorporates representatives from business, accountancy, environmental, human rights, research and labour organisations from around the world and has financial, legal and overall strategic responsibilities for the GRI. Broadly representative advisory groups on policy (the *Stakeholder Council*) and technical issues (the *Technical Advisory Council*) ensure that the GRI's core values of inclusiveness and transparency are sustained. The *Secretariat* coordinates and implements the Board's plans and advisory groups' work. *Organisational stakeholders* (OSs), which include organisations of any type, size and location, are a critical element in the GRI's governance structure. OSs come from business, civil society advocacy organisations, labour, foundations and governments and elect 60 % of the Stakeholder Council which, in turn, appoints the GRI Board of Directors.

Guidelines, technical protocols and sector supplements

The GRI published the first version of guidelines in 2000 and, immediately after, started a structured feedback process which involved more than 120 international experts and led to the adoption of revised guidelines in 2002.

To assist users in applying the guidelines, the GRI is developing *technical protocols* on indicator measurement. Each protocol addresses a specific indicator or set of indicators (e.g. energy use, child labour) by providing detailed definitions, procedures, formulas and references to ensure consistent reporting. To address specific needs and sustainability issues faced by different industry sectors (e.g. automotive, banking), the GRI is developing *sector supplements* to use with the core guidelines. Supplements that are in process or at a pilot stage include financial services, automotive, mining and metals, telecommunications, tour operators and public agencies.

2002 GRI reporting guidelines

The guidelines identify the information for inclusion in a GRI-based report, which is broadly relevant to all organisations regardless of size, sector or location. The guidelines are designed to be flexible, with a range of options suitable for reporting organisations at any level of experience and sophistication. Many organisations can build their reporting capacity in an incremental way, moving gradually toward greater coverage and transparency and informally using the guidelines. Other organisations may wish to identify their reports as prepared 'in accordance' with the 2002 GRI guidelines. To use this term, reporters must meet certain minimum requirements specified in the guidelines.

Reporting principles

The guidelines present a series of principles which underpin the report content and help ensure that GRI-based reports provide a balanced and reasonable representation of an organisation's sustainability performance, facilitate comparability, and address issues of concern to stakeholders as indicated below.

Transparency: Full disclosure of the processes, procedures and assumptions in report preparation are essential to its credibility.

Inclusiveness*:* The reporting organisation should engage its stakeholders in preparing and enhancing the quality of reports.

Auditability: Reported information should be recorded, compiled, analysed and disclosed in a way that enables internal auditors or external assurance providers to attest to its reliability.

Completeness: All material information should appear in the report.

Relevance: Reporting organisations should specify the degree of importance that report users assign to particular information in determining report content.

Sustainability context: Reporting organisations should seek to place their performance in the broader context of ecological, social or other issues where such context adds significant meaning to the reported information.

Accuracy: Reports should achieve a degree of exactness and low margin of error to enable users to make decisions with a high degree of confidence.

Neutrality: Reports should avoid bias in selection and presentation of information and provide a balanced account of performance.

Comparability: Reports should be framed so as to facilitate comparison to earlier reports as well as to reports of comparable organisations.

Clarity: Information should be presented in a manner that is understandable by a maximum number of users while still maintaining a suitable level of detail.

Timeliness: Reports should provide information on a regular schedule that meets user needs and comports with the nature of the information itself.

Report content

Part C of the guidelines recommends that five sections appear in a sustainability report. Organisations may adopt this format or modify it to enhance usefulness of the report to their stakeholders.

1. *Vision and strategy:* A statement from the CEO and discussion of the reporting organisation's sustainability strategy.
2. *Profile:* An overview of the reporter's organisation, operations, stakeholders and the scope of the report.
3. *Governance structure and management systems:* A description of the reporter's organisational structure, policies, management systems and stakeholder engagement efforts.
4. *GRI content index:* A cross-referenced table that identifies the location of specified information to allow users to clearly understand the degree to which the reporting organisation has covered the content in the GRI guidelines.
5. *Performance indicators:* Measures of performance of the reporting organisation divided into economic, environmental and social performance indicators.

Performance indicators

The performance indicators are grouped under three sections covering the economic, environmental and social dimensions of sustainability. In each area, GRI identifies *core indicators* (required for reporting in accordance with the guidelines) and *additional indicators* (used at the discretion of the reporter to enrich a report).

Economic indicators concern an organisation's impacts, both direct and indirect, on the economic resources of its stakeholders and on economic systems at the local, national, and global levels. They include wages, pensions and other benefits paid to employees; monies received from customers and paid to suppliers; and taxes paid and subsidies received. In a few instances, economic performance information overlaps with that in conventional financial statements. In general, however, the two are complementary.

Environmental indicators concern an organisation's impacts on living and non-living natural systems, including eco-systems, land, air and water. Included within environmental indicators are the environmental impacts of products and services; energy, material and water use; greenhouse gas and other emissions; waste management and recycling; impacts on biodiversity; and use of hazardous materials.

Social indicators concern an organisation's impacts on the social systems within which it operates. GRI social indicators are grouped into three clusters: labour practices (e.g. diversity, employee health and safety), human rights (e.g. child labour) and broader social issues affecting consumers, communities and other stakeholders (e.g. bribery and corruption, community relations). Because many social issues are not easily quantifiable, GRI requests qualitative information where appropriate.

Assurance

The GRI encourages the independent assurance of sustainability reports, while recognising that no generally accepted assurance framework, protocols or practices currently exist. The GRI does not itself assess the conformity of reports against the guidelines nor evaluate their accuracy, but continues to explore its role in creating a credible assurance infrastructure for the future. Annex 4 to the guidelines provides an overview of assurance processes as guidance for organisations considering the use of independent assurance to enhance the credibility of their sustainability reports (www.globalreporting.org).

▲ AA1000s (AccountAbility AA1000 assurance standard)
The AA1000 assurance standard, developed by the Institute of Social and Ethical Accountability through extensive consultation and launched in March 2003, provides guidance on key elements of the assurance process which ensures the credibility and quality of sustainability reporting. The standard is designed primarily for assurance providers, guiding the manner in which they provide assurance. It covers principles defining a robust and credible assurance process, the essential elements of a public assurance statement and the independence, impartiality and competency requirements for assurance providers. It is meant to complement the GRI reporting guidelines and other standardised or company-specific approaches to disclosure.

The AA1000 assurance standard is based on assessment of reports against three assurance principles:

- *Materiality:* Does the sustainability report provide an account covering all the areas of performance that stakeholders need to judge the organisation's sustainability performance?
- *Completeness:* Is the information complete and accurate enough to assess and understand the organisation's performance in all these areas?
- *Responsiveness:* Has the organisation responded coherently and consistently to stakeholders' concerns and interests? (www.accountability.org.uk/aa1000/default.asp?pageid=52)

3.5.3. Others

▲ CDJES 'Bilan sociétal'
The CJDES (Centre des jeunes dirigeants et des acteurs de l'économie sociale) has developed a model of 'bilan sociétal' (societal report) to guide enterprises from a social or 'traditional' economy to report on non-financial performance issues and to dialogue with the different stakeholders. This process consists of two parts:

- a series of questions (to be adapted according to the sectors of activity);
- a global analysis of the enterprise.

The questionnaire comprises nine main items:

- products, services and relationship with customers (e.g. production and positioning of the product/service, impact assessment, commercial policies);
- economic management (e.g. subcontracting, delocalisation, investments, ethical financing);
- anticipation, innovation, perspectives (e.g. R & D budget);
- work and production organisation (e.g. transparency of the organisation);
- human resources management (e.g. recruitment procedures, evolution of careers, creation and security of employment, training, work conditions, working time);
- internal actors (e.g. workers' participation, financial participation, employee involvement schemes, internal communication towards employees);
- human, social and institutional environment (e.g. transport policies, contribution to local community, social inclusion initiatives, relationship with suppliers, advertising);

- bio-physical environment (e.g. level of noise, identification of risks, policies on raw materials, waste management);
- values, ethics (e.g. company values, respect for human rights, transparency in decisions and practices).

The methodology includes a 'crossed evaluation' by stakeholders. It foresees the submission of the same questionnaire to different groups of stakeholders who are likely to have different views and the analysis/ comparison of the divergences in order to achieve consensus between them. Stakeholders are also involved in the identification of objectives the companies should strive for as well as a roadmap of priorities, means and time schedules for the changes to be implemented. The issues analysed are listed below.

1. Activity (relationship between the activity and the potentials offered by human resources and the equipment).
2. Internal responsibility (ability of the organisation to promote internal democracy).
3. Local and economic responsibility (behaviour towards the actors of the local environment aiming at promoting a common/general interest, behaviour with business partners aiming at promoting a common interest).
4. Competitiveness (ability to face competitiveness and adapt to the evolution of the market).
5. Friendliness (ability to have positive relationships with individuals, positive atmosphere at work, etc.).
6. Creativity and Aesthetics (ability to innovate and develop new ideas).
7. Efficacy and Efficiency (relationship between the results achieved and the results forecast, relationship between the results achieved and the means and resources used).
8. Employability and development of competencies (ability to offer a potential of re-employment to an employee, ability to develop individual and collective competences).
9. Ethics (ability to respect values to which the organisation adheres).
10. Respect of the environment (ability to preserve what is to be transmitted to future generations).
11. Satisfaction (ability to respond to the expectations of consumers and employees).
12. Security–health (degree of exposure to risks run by the staff, clients and others).
13. Solidarity (ability to assist, support disadvantaged people).
14. Social and collective usefulness (ability to offer a service or product which responds to a social or collective need).
15. Sustainability (ability of the organisation to ensure its long-term sustainability)

The bilan societal was tested on around 100 enterprises in Europe, 60 of which were in France, the rest being in Spain, Belgium and the UK (www.cjdes.org/).

▲ BITC corporate impact reporting initiative

Business in the Community (BITC), a UK business network on CSR, published in July 2003 a set of indicators as a baseline and starting point for measuring and reporting social and environmental impact. The report 'Indicators that count', is the culmination of a two year project run by the BITC Business Impact Review Group, which tested a set of social and environmental indicators previously identified in the report 'Winning with integrity', published in November 2000.

The indicators are divided into four impact areas- workplace, marketplace, environment and community. They are separated into 27 core indicators, on which all companies are encouraged to report (or know why they have not done so); six 'advanced' indicators judged more difficult to measure; and 17 specific indicators which are not relevant to all companies.

The indicators used in the corporate impact reporting framework offer progression over three levels: level 1 (companies just beginning to measure progress) requires mostly baseline data; level 2 (companies wishing to move beyond a basic commitment) requires some performance and impact data; level 3 (companies aiming at further improvement of their performance) requires qualitative as well as quantitative information (www.bitc.org.uk/corporate-impact).

Within the same project, BITC launched in December 2001 the *Impact on Society (IoS) reporting website*, an online database of UK company reports (www.iosreporting.org/).

Socially responsible consumption

4. Labels

4.1. Introduction

Consumers are increasingly interested in the ways goods are produced and marketed and in the ways services are marketed. As a consequence, a growing number of social, fair-trade and environmental labels have originated from individual manufacturers (self-declared labels), industrial sectors, NGOs, multistakeholder organisations and public authorities.

Labels are market-based instruments which seek to promote a more equitable and sustainable development from the demand side, influencing the purchasing decisions of consumers, retailers, manufactures, traders and others. They are symbols displayed on the packaging of goods, on shelving or on shop windows at the retail site, certifying that the production and marketing processes have respected a specific set of criteria. Current criteria are developed on a product-by-product basis to enable the specific characteristics of production systems and trading patterns to be taken into account.

Labels may cover a single issue, such as child labour or forest conservation, or more issues, such as employment conditions, fair-trade, community development, protection of natural ecosystems. Some labels apply only to specific sectors such as hand-knotted rugs, soccer balls or cut flowers.

Fair trade and ethical trade

Fair trade refers to fair trading operations aiming at supporting marginalised producers in developing countries by improving their market access, guaranteeing fair prices and stability of revenues, and providing direct and advanced payments. It mainly applies to the agriculture and handicraft sectors, where small-scale producers are often living in isolated rural areas and do not produce a sufficient quantity to export directly. As fair trade has distinctive developmental objectives, a percentage of profits is usually channelled back into local development causes.

Fair-trade products are made available to consumers through alternative trading organisations (such as Oxfam) which identify and source products directly from small producers and cooperatives, and import and market them in specialised outlets such as World Shops.

Another marketing route is through fair-trade labelling initiatives and certification. In this case, goods are labelled by specialised fair-trade certification agencies to testify that their production chains respect fair-trade principles. The importers and traders can be normal commercial companies, and the distribution channels can be conventional retail outlets. Examples of fair-trade labels used within the EU are *Max Havelaar, Transfair*, the *Fairtrade Mark and Rattvisemarkt*. In some cases, supermarkets' own brand products have qualified for fair-trade labels.

Ethical trade (also referred to as *ethical sourcing*) refers to activities (e.g. compliance with codes of conduct, supply chain management) by companies aiming to enhance their ethical, environmental and social responsibilities and promote human rights and decent working conditions in their global supply chains.

Ethical trade covers issues such as labour rights (of both direct employees and suppliers' workforce), respect of local communities and rights of indigenous people, use of security forces, avoidance of bribery and corruption, and environmental protection. Some of the most concerned sectors are consumer manufactured goods and the extractive sector.

Ethical trade relies on instruments such as codes of conduct and the *monitoring, auditing,* and/or *certification* of codes' compliance by suppliers or manufacturing facilities. This can be done by the company alone, by specialised consultants or third-party bodies[7]. Many social labels promoting ethical trade focus on the ban of child labour (e.g. *Rugmark* for the rug industry in the Indian subcontinent, the Brazilian *Abrinq* label, *Baden* for the football stitching industry in China). The recently adopted *Belgian Social Label* is granted to products in whose production chains the core ILO conventions are respected (see below).

Fair-trade labels and social labels

Unlike organic or safety labels, social and fair-trade labels do not provide information about the intrinsic characteristics of a particular product, but rather on its production and trading conditions.

Social and fair-trade labels mainly apply to imported products, targeting consumers in developed countries and producers in developing countries, but have a different focus. Social labelling schemes refer to labels or certification systems which certify companies' compliance with international labour standards, whether at plant-specific level (e.g. SA 8000) or throughout the production chain of a product (e.g. Belgian Social Label), while the fair-trade initiatives have a developmental approach, with a broader focus on a wider community and sustainable development.

It is important to note that fair-trade labels have recently included reference to core labour standards in their criteria, thus combining the fair-trade and ethical trade concepts. But, as in most cases small-scale producers are not dependent on hired labour as they manage their farm on their own or with the help of their family, working conditions criteria in fair-trade labels are more *objectives* to aim for rather than stringent requirements. Nevertheless, a clear condition is to have democratic and inclusive decision-making structures.

Certification process [8], roles and responsibilities

The label's criteria and requirements are set by *labelling organisations* such as the Fair Trade Labelling Organisation and the Forest Stewardship Council. Compliance with these criteria by producers or traders can be certified either by the labelling organisation or by a certification agency accredited by the former.

Producers — whether alone, grouped in a cooperative or association of workers- commit to comply with criteria such as the ban of child labour, respect for the democratic decision-making system of fair trade, or the implementation of sustainable forest-management practices. *Traders* and *retailers* usually commit to provide fair and advanced payments in the fair-trade system and pay fees to fund social programmes (e.g. for the rehabilitation of workers' children).

Certification process

Despite some differences between the certification systems of the various labels, certification procedures usually include the following steps:

- producers who commit to comply with the label's criteria apply for certification;
- an initial assessment and preliminary visit is made to check conformance with the criteria and identify areas that need improving;
- the actual audit takes place, which includes a site visit of the factory or farm, revision of records and files (e.g. terms and conditions of employment, payroll records, health and safety records) and interviews with workers;
- the certification body assesses that the applicant meets the label's criteria, issues a contract granting a licence to use the label and includes the applicant in national or international registers of certified bodies;
- the contract is usually granted for a limited period (e.g. three years) and foresees periodic monitoring and review processes.

(7) See 'Key issues' in Section 1 'Codes of conduct'.
(8) Certification of plants or production units such as under the SA 8000 scheme is addressed in Section 2 'Management standards'.

4.2. Drivers and benefits

Labels provide a direct way to translate concern into positive action and promote social and environmental progress by triggering change in the behaviour of consumers. Labels also create new and premium market opportunities for producers and retailers by catalysing the choice of responsible consumers.

4.3. Key issues

In general, labelling initiatives are limited in scope and potential impact as they are restricted to particular niches within the retail market and often apply only to imported products. There is a need to promote a wider offer of labelled goods and increase their market share through enhancing their visibility and transparency and by raising consumers' awareness of their availability and significance. In this context, education plays a very important role in promoting a better understanding of the need for socially responsible products and services.

Accurate, accessible and transparent information

To be effective, labels must be clear, trustworthy, viable and non-discriminatory. Accurate and accessible information about the social and environmental conditions of production is crucial to allow consumers and other buyers to make properly informed product choices. Criteria and procedures for labelling and certification, as well as compliance control mechanisms, also need to be transparent and verifiable.

Convergence v multiplication of schemes

The multiplication of labelling schemes using different criteria risk undermining their effectiveness as confusion may arise amongst consumers on the meaning of the various labels. Further thought needs to be given to the development of common criteria and guidelines for the granting, certification and verification of labelling schemes. Common standards of reference could also help prevent misleading and unsubstantiated claims.

Monitoring and verification

Certifying agencies — being fair-trade organisations themselves, independent bodies or others — are responsible for carrying out regular monitoring on producers, importers and traders which qualify to use their labels to ensure that the criteria are respected. There is a need to review how labels are currently substantiated, verified and controlled by them. Unlike product content or safety labels, social claims cannot be verified by testing the product itself. As a consequence, effective and transparent systems for monitoring, verification and control of label claims need to be in place to gain consumers' trust.

Funding

Labelling schemes are usually financed by licensing fees imposed on users of the label (producers, importers, distributors). These fees are related to turnover and volume of sales. In many cases, the cost is passed on to the consumers who have to pay a premium for labelled products. Public authorities, intergovernmental organisations, or NGOs often help in subsidising labelling schemes which otherwise would not operate on a self-sustaining basis[9].

Adverse effects

Labels may also have adverse effects. For instance, the costs of certification or conformity assessment can drive the poorer producers out of the market and result in further market concentration among bigger producers (this does not apply for fair-trade labels, which aim precisely at increasing market access for small producers). Child labour labelling schemes have also been criticised for driving child workers into less formal or more dangerous sectors where the elimination of exploitation is more difficult.

(9) In fair trade, the aim of the certification agencies (labelling organisations) is to be self-financing through the licence fees but this only occurs once a sufficient volume of trade is built up. Initially, therefore, costs can exceed revenue for the certification agencies, and many receive some financial support from other sources such as governments. Within the FLO system, producers do not pay for certification.

4.4. Recent developments at EU level

▲ **The Commission communication on agricultural commodity chains, dependence and poverty**, COM(2004) 89, indicated that 'the EU should take action to increase public awareness and transparency on existing fair, sustainable or ethical trade initiatives — whether led by civil society, private sector or government — including their functioning and performance'. This should enable consumers, companies and policy-makers to take the right decisions. In addition, it indicated that the Commission has the intention to explore the feasibility of developing criteria/guidelines for fair and ethical voluntary trading schemes at Community level (whether led by civil society, companies or government), in cooperation with Member States and key actors within these schemes.

▲ **The sustainable trade action plan (STAP)** adopted in early 2004 aims to promote sustainable and fair trade by focusing 'on the legal and business environment in which the value chain operates … to increase consumer knowledge of and confidence in products labelled as being sustainable trade, fair trade or ethical trade'. The Commission also supports the work of the Sustainable Trade and Innovation Centre (STIC) which is working to develop markets for sustainable products through an alliance of business, consumer and civil society groups.

▲ **The Commission communication entitled 'Corporate social responsibility: a business contribution to sustainable development'**, COM(2002) 347, indicated that:

- the ILO core labour conventions should constitute a minimum baseline for voluntary labelling schemes;
- in its new consumer policy strategy, the Commission will examine existing private labelling schemes, such as organic labelling, fair-trade and CSR measures, to assess their effectiveness and the need for further measures in achieving the objectives of transparency and information for consumers;
- the Commission has invited the CSR EMS Forum to examine commonly agreed guidelines for labelling schemes supporting ILO core conventions and environmental standards.

(http://europa.eu.int/comm/employment_social/soc-dial/csr/csr_index.htm)

▲ **The Commission communication promoting core labour standards and improving social governance in the context of globalisation**, COM(2001) 416, indicated that:

- social labelling schemes should be objective, transparent and non-discriminatory;
- procedures to obtain labels should be fair, proportional and not unnecessarily resource demanding so as not to exclude developing country producers;
- the EU and Member States should help developing countries make use of social labelling schemes including capacity building and support efforts to improve the transparency, availability and non-discrimination of schemes.

(http://europa.eu.int/eur-lex/en/com/cnc/2001/com2001_0416en01.pdf)

▲ **The Commission communication on fair trade**, COM(1999) 619, described the concept of fair trade and presented courses of action the EU could adopt to assist the development of fair trade within the EU, including the integration of the concept of fair trade within existing community policies. (http://europa.eu.int/eur-lex/en/com/cnc/1999/com1999_0619en01.pdf)

▲ **The European Parliament** report on fair trade (Fassa Report, July 1998) called on the Commission to promote fair trade in its development and trade policies.
(http://wwwdb.europarl.eu.int/oeil/oeil_ViewDNL.ProcedureView?lang=1&procid=5614)

4.5. Relevant initiatives

Fair-trade organisations and labels
- FLO International (Fair-trade Labelling Organisations)
- IFAT (International Federation for Alternative Trade)
- EFTA (European Fair Trade Association)
- NEWS! (Network of European World Shops)
- FINE

Social labels
- Belgium Social Label
- Rugmark label
- Flower Label Program

Environmental labels
- EU eco-label
- Forest Stewardship Council
- Pan-European Forestry Certification (PEFC)

4.5.1. Fair-trade organisations and labels

▲ **FLO International (Fair-trade labelling organisations)** is the worldwide fair-trade standard setting and certification organisation. This international umbrella organisation of 17 national labelling organisations [10] was set up in 1997 to coordinate national fair-trade initiatives, develop international fair-trade criteria for each product, and monitor producer and trader compliance with fair-trade criteria more efficiently. At the present time, FLO labels nine products [11] produced in 30 countries of the South. In order to use the fair-trade label, each actor of the fair-trade chain has to be approved by FLO or by its national counterpart. Among the responsibilities of the FLO are: auditing the conformity of producers and traders to the Fairtrade standards; keeping the registers of certified producers and fair traders; assuring that Fairtrade benefits are used for social and economic development; and that the labels are only used on products coming from certified producers. In assessing compliance with fair-trade standards, FLO works with a network of independent inspectors that regularly visit all producer organisations.

Fair-trade national initiatives like *Max Havelaar* (www.maxhavelaar.org), **TransFair** (www.transfair.org); *Rattvisemarkt* (www.rattvisemarkt.se), and *Fairtrade* (www.fairtrade.org.uk) are part of FLO and follow the same social criteria. For the sake of clarity and transparency, fair-trade national initiatives and FLO have recognised the need for a single logo. In this context, FLO has started harmonising the different labels into one *international fairtrade certification mark*. The new mark is now available and it will be replacing existing labels at different times (according to market demands) in different countries (www.fairtrade.net).

▲ **IFAT (International Federation for Alternative Trade)** is a network of alternative trading organisations (ATOs) and producer organisations in Africa, Asia, Europe, Latin America, North America and the Pacific Rim, created in 1989 as a forum for the exchange of information on fair-trade issues. Its main goals are: providing networking opportunities, information and technical support; improving market access; and engaging in educational, campaigning and lobbying activities (www.ifat.org).

(10) Transfair, Austria; TransFair, Germany; TransFair, Italy; TransFair-Minka, Luxembourg; TransFair, Japan; TransFair, USA; TransFair, Canada; Fairtrade Foundation, UK; Fair Trade Mark, Ireland; Max Havelaar, Belgium; Max Havelaar, France; Max Havelaar, Denmark; Max Havelaar Foundation, the Netherlands; Max Havelaar, Norway; Max Havelaar Foundation, Switzerland; FLO branch office, El Salvador; Reilun kaupan edistamisyhdistys ry, Finland; Foreningen for Rattvisemarkt, Sweden.
(11) Coffee, tea, rice, fresh fruit, juices, cocoa, sugar, honey, and sport balls.

▲ **EFTA (European Fair Trade Association)** is an association of 12 importers in nine European countries established in 1987 to make fair-trade imports more efficient and effective and provide advice and information exchange on products and producers, encourage bilateral cooperation, raise awareness of decision-makers and the general public (www.eftafairtrade.org).

▲ **NEWS! (Network of European World Shops)** is a network of national associations of World Shops that 13 European countries created in 1994 to coordinate cooperation between World Shops in Europe, provide information exchanges, and organise awareness campaigns at EU level (www.worldshops.org).

▲ **FINE** is an informal international structure gathering all fair-trade organisations such as Efta, Ifat and FLO set up in 1988 to harmonise criteria, definitions and fair-trade monitoring methods.

4.5.2. Social labels

▲ **Belgium Social Label**

In 2001, the Belgian government approved legislation offering companies the possibility to acquire a label, which is granted to products whose whole chain of production respects the eight fundamental ILO conventions. The label is granted for a maximum of three years by the Ministry of Economic Affairs on the opinion of a Committee for Socially Responsible Production (composed of government officials, social partners, consumers and NGOs representatives). The Committee for Socially Responsible Production establishes a programme of control for the company and monitors its progress on compliance. Certification is carried out by bodies accredited by the Ministry of Economic Affairs. Companies applying for the label for one of their products are obliged to give information on all the suppliers and subcontractors directly involved with the realisation of the product and provide evidence that, just like themselves, their subcontractors and suppliers also respect the ILO core conventions. Every year, the Ministry of Economic Affairs presents to the Parliament a report on the implementation of the label. The scheme is voluntary (www.social-label.be).

▲ **Rugmark label**

This label is limited to one product (rugs and carpets), one producing region (the Indian subcontinent) and one issue (ban on child labour). Following a consumer awareness campaign initiated in Germany with the help of trade unions, religious and human rights organisations, and consumer groups on the need to develop a special label for hand-knotted carpets made without the use of child labour, the Rugmark Foundation was formally established in September 1994 to supervise the label. The Rugmark Foundation concludes contracts with producers and exporters. The partners agree to the ban on child labour and allow unannounced controls in their plants. Fees from exporters and buyers are collected in a fund and transferred to the producing countries for use mainly in the education of former working children (www.rugmark.org).

▲ **Flower Label Program (FLP)**

This was developed in 1998 by two major associations representing the flower trade in Germany (BGI — flower wholesalers and importers — and FDF — the German florist's association), trade unions (IG BAU — German trade union for construction, agriculture and the environment), and human rights organisations (FIAN and Brot für die Welt) to ensure fair working and environmental conditions in the flower trade sector. The Flower Label Program sets human rights and environmental protection standards for flower farms to follow, which include ILO core labour rights, proper employment contracts, health and safety issues, responsible attitude towards natural resources and the environment, and non-use of toxic pesticides and chemicals. Flower farms anywhere in the world can apply to become FLP members. Their compliance with the FLP standards is assessed by independent social and environmental auditors. Human rights groups and trade unions are entitled to carry out spot checks. Trustworthy complaint centres for employees are set up in each country. Once accepted as members, the flower farms receive the FLP certificate and have the right to market their flowers under the FLP label (www.flower-label-program.org).

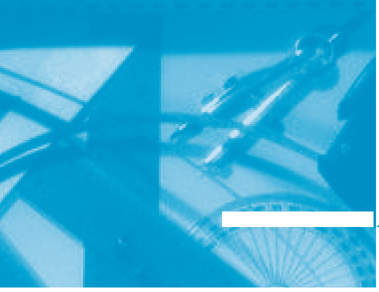
4.5.3. Environmental labels

▲ **EU eco-label**
The EU eco-label is a voluntary scheme launched in 1992 (and revised in 2000) to encourage the production and consumption of green products at a European scale. The 'EU flower' aims to promote the design, production, marketing and use of consumer products and services (except food, drink and medicines) that have a reduced environmental impact during their life cycle, and to provide consumers with better information on the environmental quality of products and services. The labelling scheme is awarded only to those products with the lowest environmental impact and which comply with all established criteria. The criteria behind the label are developed by the European Union Eco-Labelling Board (EUEB), which regroups representatives of Member States, environmental NGOs, trade unions, and consumer and industry associations. The ecological criteria take into account all aspects of a product's life, from its production and use, to its eventual disposal, and are identified on the basis of comprehensive studies and after extensive consultation within the EUEB. Criteria for a product have to be approved by the Member States and the European Commission before they can be used to award the eco-label to products. Member States designate competent bodies that are the national points of access to the scheme.

All products bearing the 'flower' are checked by independent bodies for compliance with strict ecological and performance criteria. At present, the EU flower can be awarded to 19 product groups and already more than 120 licences have been awarded for several hundred products
(http://europa.eu.int/comm/environment/ecolabel).

▲ The **Forest Stewardship Council** (FSC) is an international not-for-profit organisation founded in 1993 and regrouping representatives from environmental and social NGOs, the timber trade and forestry profession, indigenous people's organisations, community forestry groups and forest product certification organisations from around the world. The FSC has introduced an international labelling scheme for forest products, which provides a credible guarantee that the product comes from a forest that has been evaluated and certified as being managed according to agreed social, economic and environmental standards. All forest products carrying the FSC logo have been independently certified as coming from forests that meet the internationally recognised FSC principles and criteria of forest stewardship (the timber has to be tracked from the forest through all the steps of the production process until it reaches the end user: only the products whose whole chain-of-production has been checked are eligible to carry the FSC logo). Forest inspections are carried out by a number of FSC-accredited certification bodies, which are evaluated and monitored to ensure their competence and credibility. It is worth mentioning that the involvement of trade unions in the scheme introduced labour issues such as freedom of association and occupational health and safety alongside criteria to address technical aspects of forest management (www.fscoax.org).

▲ **Pan-European Forestry Certification** (PEFC) is voluntary private-sector initiative launched in 1999 to promote sustainable forest management at the national or regional level. It offers a global framework for the mutual recognition of credible national or regional forest certification schemes which have been developed to meet internationally recognised requirements for sustainable forest management. PEFC is based on independent third-party auditing and on regional certification levels (www.pefc.org).



Socially responsible investment

5. SRI

5.1. Introduction

In recent years, socially responsible investment (SRI) has experienced a strong surge in popularity among mainstream investors. SRI combines investors' financial objectives with their concerns about social, environmental and ethical issues.

There are basically two types of SRI markets, linked to different types of socially responsible investors: *consumer* or *retail SRI*, which refers to individuals' investments (e.g. personal pensions) made according to their personal values and *institutional SRI,* which refers to investments made within an SRI framework (e.g. using the methods described below) by institutions such as pension funds, foundations, banks, and asset management and insurance companies.

The two main approaches for institutional investors to follow their social and environmental values are by screening the companies to invest in or through shareholder engagement [12].

Screening

Screening regards the inclusion or exclusion of stocks and shares in investment portfolios based on ethical, social or environmental grounds. There are two main approaches to select (screen) a company to invest in: either through negative criteria (ethical screening), i.e. excluding companies with certain types of products such as armament, nuclear, pornography industries, or through positive criteria, i.e. selecting companies on the basis of the evaluation (rating) of their social and environmental performance.

The process of screening and rating requires extensive research and is usually performed by a specialised research group [13], SRI departments of banks, asset management companies and other financial institutions. Non-financial analysts carry out the research and evaluation of the ethical, social and environmental performance of companies using different criteria, methodologies and metrics. When investment decisions are made, social and environmental criteria are usually weighed together with financial performance.

Shareholder activism or engagement

Social responsible investors can use their role as shareholders to advocate social and environmental concerns and seek to influence a company's behaviour through dialogue with the company management, filing shareholder resolutions at annual meetings or, as a last resort, divestment.

There are various SRI products and instruments, some of which are listed below.

Green, social and ethical funds

Green, social and ethical funds are mutual funds using ethical, social and environmental screens for portfolio selection. More and more of such funds are available to individual investors in the European SRI retail market.

(12) Socially responsible investors can also use another way to directly support a particular cause or initiative. Cause-related investing is investing in non-conventional financial institutions such as community development banks, credit unions and micro-finance bodies that offer low interest rate loans to people who would not have otherwise access to loan capital. Cause-related investors may seek a financial return at market rate or lower while at the same time providing high impact 'social returns' from their investment, measured for instance in local business development, community regeneration projects, affordable housing, etc.

(13) For instance: Ethibel, Belgium; Imug, Germany; FundacionEcologiayDesarrollo, Spain; Avanzi, Italy; Triodos, Netherlands; EIRIS, United Kingdom; Pirc, United Kingdom.

Pension funds

An increasing number of pension funds invest part of their money according to socially responsible criteria.

Several Member States (Belgium, Germany, France, Sweden and the UK) have adopted disclosure regulations requiring pension funds to state whether and how they take account of social, environmental and ethical criteria in their investment decisions. Although such legislation does not oblige pension fund trustees to adopt SRI policies, it increases their transparency on the issue.

Sustainability indices

Recently, a number of ethical investment and sustainability indices have been introduced, such as the Dow Jones Sustainability Index [14], the FTSE4 Good [15], the Domini 400 Social Index [16] and the Ethibel Sustainability Index [17]. These indices are designed to reflect and benchmark the performance of socially responsible equities, that is investments in companies which are striving to become more sustainable. Indices can play a useful role in understanding the relationship between SRI funds and financial performance and thus facilitate the up-take of SRI.

Some social indices are based on exclusion criteria (e.g. they don't include tobacco, alcohol, weapons, nuclear power industries) while others also look at the overall performance of a company on CSR.

Listing process

When companies want to raise capital on the stock exchange through public offerings of shares and bonds (initial public offering — IPO, or subsequent listing), they have to produce documents such as listing prospectuses to provide investors with adequate information to assess the company they want to invest in.

This disclosure is essential for a fair and efficient functioning of financial markets and is governed by extensive regulation, to ensure listing documents contain all information needed by investors to identify the overall risks associated with a business, including social and environmental aspects. Listing rules are set at European and national level. The prospectus directive adopted in July 2003 sets a framework for standardising what information should be disclosed when companies seek a listing, but makes no specific reference to social and environmental disclosure. On the other hand, national regulators can ask for additional information from individual companies if necessary for investor protection.

5.2. Drivers and benefits

By integrating sustainability commitments in investment decisions, SRI seeks to combine investors' financial goals (e.g. profitability and security of investment) with concerns over an investment's impact on society and the environment. As the pressure comes directly from the companies' owners or shareholders, SRI represents a powerful way to prompt change in companies' behaviour, translating values into positive action and promoting social and environmental progress.

5.3. Key issues

Conditions to promote SRI

The lack of information on SRI performance and of transparent criteria defining SRI as well as of clear and homogeneous assessment methodologies are among some of the reasons hindering the development of SRI.

Also, as research and evaluation methodologies as well as screening criteria used by rating agencies and other bodies vary substantially, there is an urgent need to improve their quality, reliability and transparency

(14) http://www.sustainability-indexes.com
(15) http://www.ftse.com/ftse4good/
(16) http://www.domini.com/Social-Screening/creation_maintenance.doc_cvt.htm
(17) http://www.ethibel.org/subs_e/4_index/main.html

and ensure the professionalisation of non-financial analysts monitoring the accuracy of input data, assessment procedures and outcomes.

To further develop SRI, awareness needs to be raised amongst mainstream investors, both retail and institutional. It is important to demonstrate that SRI offers the same levels of returns and risk as mainstream investments.

Transparency and accountability

Transparency and accountability are important aspects to enhance the credibility of SRI and therefore its further development.

As the offer of retail SRI funds diversifies and screening methodologies become more complex, there is a need for more transparency and accountability in the retail SRI market with regard to the methods and sources of information used to assess companies' performance, the screening criteria, and the control on the respect of the investment policy.

In this context, the association of Dutch investors has developed transparency guidelines, which inspired transparency guidelines for the retail SRI fund sector developed by Eurosif at European level (see below).

Transparency is also important to pension funds for which still little information is available on how much of the total assets is invested according to SRI criteria (often a small percentage), the criteria used to select companies and whether and how fund managers are monitored on implementation of the pension fund's SRI policy.

As indices are concerned, criteria to select companies in the index basket vary, and so attention needs to be paid to the claims made by index providers and those marketing them.

Dialogue between companies and investors

Companies are often overloaded with excessive and sometimes divergent information requests. For this reason, many advocate more coherence between rating agencies' screening criteria and methodologies, and between agencies' questionnaires and companies' reports. In this context, it is important to promote dialogue and cooperation between SRI research analysts themselves, between SRI analysts and companies, and between both these groups and mainstream investors.

An example of the kind of information mainstream investors seek in companies is given by the investment guidelines launched by the Association of British Insurers (see below). ORSE (Observatoire sur la responsabilité sociétale des entreprises) has developed a charter of reciprocal commitment between sustainability research organisations and companies (see below).

5.4. Recent developments at EU

▲ In its communication entitled '**Corporate social responsibility: a business contribution to sustainable development'**, COM(2002) 347, the Commission has encouraged initiatives aiming at monitoring and benchmarking practices of pension funds and investment funds with regard to CSR, and invited the CSR EMS Forum to consider whether a common EU approach can be established.

In addition, it has invited occupational pension schemes and retail investment funds to disclose whether and how they take account of social, environmental and ethical factors in their investment decisions.

5.5. Relevant initiatives

Retail and pension fund investment decisions and disclosure
- Transparency guidelines for sustainable investment funds
- UK's pensions disclosure regulation
- Comité intersyndical de l'épargne salariale — France

Rating agencies and screening research
- Voluntary quality standard for SRI research (CSRR-QS 1.0)

Dialogue between companies and financial analysts/investors
- 'Disclosure guidelines', ABI (Association of British Insurers)
- Charter of Reciprocal Commitment for Sustainability Analysis Organisations and Companies

5.5.1. Retail and pension funds investment decisions and disclosure

▲ **Transparency guidelines for sustainable investment funds**
Based in part on current best practices, the **'Eurosif transparency guidelines'** are focused on the retail SRI fund sector in order to increase accountability primarily to consumers. The guidelines are also envisioned to create more clarity for asset managers, research providers and other stakeholders (www.eurosif.org).

The Eurosif guidelines were built on the **'Transparency guidelines for sustainable investment funds'**, developed by the Dutch Social Investment Forum (VBDO) in 2002. These guidelines set out 14 criteria to provide transparency in SRI funds, inform customers and investors about which companies are being invested in, and in what way their sustainability is being audited, managed, and promoted (www.vbdo.nl).

▲ The **UK's pensions disclosure regulation** of July 2000 requires that trustees of occupational pension funds disclose in the statement of investment principles the extent — if at all — to which social, environmental or ethical considerations are taken into account in their investment strategies and their policy — if any — in relation to the exercise of rights (including voting rights) attached to investments. As a result, pension funds soon started to require more information from the firms they invested in, which forced greater numbers of these firms to publicise information on their social and environmental performance. Belgium, Germany, France and Sweden have adopted similar disclosure regulations on pension funds (www.legislation.hmso.gov.uk/si/si1999/19991849.htm).

▲ **Comité intersyndical de l'épargne salariale** (France) is an initiative created in January 2002 by four French trade unions (CFDT, CGC, CFTC, CGT) with the aim to control the way the *épargne salariale* (employees' savings) is invested and to guide fund managers towards secure and socially responsible funds. The Committee has launched a quality label for financial products in France which certifies their financial, social and environmental quality. In 2002, seven financial products have been labelled (http://www.cfdt.fr/actualite/economie/epargne_salariale/epargne_salariale_0001.htm - in French).

5.5.2. Rating agencies and screening research

▲ **Voluntary quality standard for SRI research (CSRR-QS 1.0)**
CSRR-QS 1.0 is the first quality standard conceived in the field SRI research and analysis drawn up by a number of independent SRI research groups (Ethibel, Imug, Eiris, Avanzi, Sirigroup, etc.). It aims to improve quality management systems, stimulate transparency, facilitate assurance processes and form a basis for further verification procedures. The pilot version of the standard will go through an intensive process of consultation and piloting in 2004 (www.csrr-qs.org/pdf/CSRR-QS_1_0_Pilot_Version.pdf).

5.5.3. Dialogue between companies and financial analysts/investors

▲ The **'Disclosure guidelines'** developed in 2001 by the Association of British Insurers set out an example of what institutional investors expect to see disclosed in company annual reports. They call on companies to confirm that they have assessed external social, ethical and environmental risks and are managing them in such a way as to preserve or enhance the value of the business (www.abi.org.uk; http://europa.eu.int/comm/employment_social/soc-dial/csr/pdf2/072-SPEMP-NAT_Association-of-British-Insurers_UK_011214_en.htm (in annex)).

▲ **Charter of Reciprocal Commitment for Sustainability Analysis Organisations and Companies**, ORSE, 2002. This charter aims at clarifying and professionalising the relationship between companies and research groups assessing their social and environmental performance. The document is open for comments. For a copy of the charter, send an e-mail to contact@orse.org.

Annex: Relevant studies and other resources

I. Codes of conduct

i. General (e.g. surveys of current practices, drivers, trends)

▲ ***Business and code of conduct implementation. How firms use management systems for social performance***, by Ivanka Mamic, ILO (management and corporate citizenship programme), 2003. This report looks at the management approaches to implement CSR and corporate codes of conduct in the footwear, apparel and retail sectors. Its aim is to identify and examine ways by which companies adopt, implement and evaluate the effect of policies regarding CSR and the voluntary commitment to labour, social and ethical practices in the context of globalised business operations (www.ilo.org/images/empent/static/mcc/download/supply_chain.pdf).

▲ ***Company codes of conduct and international standards: an analytical comparison***, World Bank, October 2003. This paper is one of a series of research analyses the World Bank Group's Investment Climate Department has commissioned to determine the content of CSR codes of conduct in targeted industry sectors, and the extent to which code content derives from internationally agreed standards. It analyses codes in three industry sectors — apparel, footwear, and light manufacturing; agribusiness; and tourism — and tries to assess whether there are any emerging trends in these industry sectors with regard to broad CSR categories such as human and labour rights, environmental standards and social and community impacts (www.worldbank.org/html/fpd/privatesector/csr/doc/Company %20Codes %20of %20Conduct.pdf).

▲ ***Self-regulation in the workplace: codes of conduct, social labelling and socially responsible investment***, by Michael Urminsky, ILO, 2002. This working paper provides a comprehensive overview and analysis of a wide range of voluntary initiatives related to the world of work. It is an updated and more elaborate version of a 1998 ILO paper on codes of conduct by Janelle Diller (http://www.ilo.org/public/english/employment/multi/download/wp1mcc.pdf).

▲ ***Corporate codes of conduct, self-regulation in a global economy***, by Rhys Jenkins, UNRISD, 2002. This paper sets out to explain in detail the changes that have taken place in corporate regulation. It explores the drivers that account for the growth of corporate codes of conduct, and the different stakeholders and interest groups involved, as well as the limitations and risks linked to the dissemination of these self-regulation instruments (www.unrisd.org/80256B3C005BCCF9/(httpPublications)/ E3B3E78BAB9A886F80256B5E00344278?OpenDocument).

▲ **'Codes of corporate conduct: expanded review of their contents'**, *Working Papers on International Investment*, Number 2001/6, OECD, May 2001. Based on a slight extension of an inventory of more than 200 codes of corporate conduct collected for an earlier study, this paper takes a more in-depth look at the contents of the codes with respect to coverage and code implementation procedures (www.oecd.org/dataoecd/57/24/1922656.pdf).

▲ ***Business responses to human rights***, by Andrew Wilson and Chris Gribben, Ashridge Centre for Business and Society, 2000. A survey of the world's largest 500 corporations to discover how many had statements of business principles or codes of ethics, and how many of these addressed human rights issues (www.acbas.org/Web/AshAcbas.nsf/pdfs/Response/$file/Response.PDF).

ii. Implementation, monitoring and verification

▲ **'Making codes of corporate conduct work: management control systems and corporate responsibility'**, *Working Papers on International Investment*, Number 2001/3, OECD, February 2001. This paper addresses the following topics: managerial approaches to implementing voluntary codes; organisations that provide external verification services; monitoring or auditing standards (www.oecd.org/dataoecd/45/29/1922806.pdf).

▲ **Discussing key elements of monitoring and verification**, by Nina Ascoly and Ineke Zeldenrust, 2001 (www.somo.nl/monitoring/related/disc-key-elements.htm).

▲ **Overview of recent developments on monitoring and verification in the garment and sportswear industry in Europe**, by Ascoly, Zeldenrust and Joris Oldenziel, May 2001, both available from SOMO (www.somo.nl/monitoring/pr/fo1.htm).

iii. Others

▲ **ILO business and social initiatives database**. This database includes comprehensive information on private-sector initiatives which address labour and social conditions in the workplace and in the community where enterprises operate. The database features corporate policies and reports, codes of conduct, accreditation and certification criteria, labelling and other programmes. It allows you to undertake customised searches to retrieve information on specific companies and organisations, countries, regions, business sectors and labour and employment issues (www.ilo.org/basi).

▲ **www.codesofconduct.org** This website provides a useful resource for those interested in the full text of various codes of conduct, and their provisions, sponsors, and effects on business practices.

II. Reporting

i. General (e.g. history, surveys of current practices, trends, guidance)

▲ ***The recent history of environmental and social reporting,*** by David Wheeler of York University and John Elkington of SustainAbility. This article looks at how corporate reporting on environmental and social issues has evolved over the last 10–15 years and how organisations, such as SustainAbility, have monitored and addressed this area (www.sustainability.com/programs/engaging/history-reporting.asp).

▲ ***Material world: the 2003 benchmark survey of global reporting,*** CSR network, 2003. Based on survey data, it details the latest trends in environmental and social reporting practices of the 100 largest firms listed in Fortune magazine's Global 500 (www.csrnetwork.com/images/pdf/Survey %202003 %20flyer_Oct2003.pdf).

▲ ***Trust us: the global reporters 2002 survey of corporate sustainability reporting,*** by SustainAbility and UNEP, 2002. This survey is the latest of a series of international benchmark studies produced by AccountAbility for UNEP since 1993. It identifies and analyses 50 top reports from around the world and focuses on the emerging trends and hot topics of sustainability reporting, namely 'materiality', 'governance' and 'brands' (www.sustainability.com/publications/engaging/trust-us.asp).

▲ ***Observatoire des pratiques de reporting social et environnemental des entreprises cotées françaises. Étude des rapports annuels 2002 des entreprises du SBF 120 à l'aide des lignes directrices de la GRI,*** Terra Nova, November 2003. Analysis of sustainability reports of 120 French companies belonging to 30 different sectors of activity on the basis of GRI guidelines (www.terra-nova.fr/).

▲ ***Environmental, social and sustainability reporting on the world wide web — A guide to best practice,*** ACCA, 2001. Advice from the UK-based Association of Chartered Certified Accountants (ACCA), including the 'seven deadly sins' of web reporting (www.getf.org/file/toolmanager/O16F21777.pdf).

▲ ***Sustainable development reporting. Striking the balance,*** World Business Council to Sustainable Development (WBCSD), 2002. The aim of this report is to help companies understand the added value that reporting can bring to them. It also provides guidance, to both the initiated and the uninitiated, on how to report, thus complementing other initiatives which guide companies on what to report (http://qpub.wbcsd.org/web/sdportal/publication/20030106_sdreport.pdf).

ii. Content and impact of reporting

▲ ***Redefining materiality — Practice and public policy for effective corporate reporting,*** AccountAbility, 2003. This study proposes an approach to defining 'materiality' in corporate reporting, particularly addressing the UK government's proposed amendments to company law (www.accountability.org.uk/uploadstore/cms/docs/final %20full %20flyer.pdf).

▲ '***Does reporting work? The effect of regulation',*** AccountAbility Quarterly, September 2003. This publication tries to get beyond the somewhat jaded debate concerning voluntary versus mandatory approaches to reporting, to see what works and why (www.accountability.org. uk/uploadstore/ cms/docs/AQ21flyer.pdf).

▲ ***Impacts of reporting,*** *C. Rubbens,* P. Monaghan, E. Bonfiglioli, S. Zadek, CSR Europe and AccountAbility, 2002. This report, based on 32 interviews with 11 European companies, investigates whether and how reporting impacts on decisions, behaviour and business and societal outcomes (www.csreurope.org/publications/impacts_page3322.aspx).

iii. Assurance

▲ ***Benefits of sustainability assurance,*** FEE, 2003. This publication follows up the previous discussion paper (see below) and outlines the benefits of providing assurance on sustainability reports. It gives a concise explanation of what an assurance engagement entails, and details the benefits for an organisation commissioning such an engagement (http://mail.fee.be/website/fee_publication.nsf/face3387ce2ea3b6c1256998003c46ac/87534894b5a4f80cc1256cc500531198?OpenDocument).

▲ ***Providing assurance on sustainability reports,*** FEE (Fédération Experts Comptables Européens), April 2002. This discussion paper aims to stimulate debate on third-party, independent assurance provision, a key element to enhance the quality and credibility of company reporting. The paper asks whether sustainability reporting is now mature enough to withstand the highest levels of such scrutiny. Feedback on questions raised was requested by 1 November 2002 (http://mail.fee.be/website/fee_publication.nsf/face3387ce2ea3b6c1256998003c46ac/806befd58423b23cc1256baa003c1561?OpenDocument).

III. Labels

▲ ***Self-regulation in the workplace:*** codes of conduct, social labelling and socially responsible investment, by Michael Urminsky, ILO, 2002. This working paper provides a comprehensive overview and analysis of a wide range of voluntary initiatives related to the world of work. It is an updated and more elaborate version of a 1998 ILO paper on codes of conduct by Janelle Diller (http://www.ilo.org/public/english/employment/multi/download/wp1mcc.pdf).

▲ ***Social labels: tools for ethical trade,*** by Simon Zadek, Sanjiv Lingayah, Maya Forstater, New Economics Foundation, 1998. Study carried out for the European Commission, reviewing the various types of social labels in use, from unilateral claims by individual manufacturers to independently recognised labels such as the EU eco-label and fair-trade labels (http://europa.eu.int/comm/employment_social/soc-dial/sociallabels/finreport_en.pdf).

▲ ***Labels sociaux: bilan et perspectives,*** article by Anne Peeters, Centre d'études et d'action pour la cohésion sociale (CEDAC) (www.socialresponsibility.be/pdf/speakers/B3-A.Peeters.pdf).

IV. Socially responsible investment (SRI)

i. General (e.g. research, surveys, current trends)

▲ ***Socially responsible investment among European institutional investors,*** Eurosif, 2003. Conducted during 2003 in eight countries, this study highlights the current scale of European Institutional SRI across these countries, offers insights into institutional SRI, and gives food for thought about what is socially responsible investment and how it can best be integrated into sound mainstream financial management (www.eurosif.org/pub/lib/2003/10/srirept/index.shtml).

▲ ***An ethical door policy. How to avoid the erosion of ethics in socially responsible investment,*** New Economic Foundation, 2002. This paper explores the challenges that emerge as a result of the rapid growth of SRI, questioning some present assumptions, making practical recommendations and provoking more open debate on the future of the SRI industry (www.neweconomics.org/default.asp?strRequest=pubs&strContext=pubdetails&intPubID=104).

▲ ***International evidence on ethical mutual fund performance and investment style,*** Maastricht University, Department of Finance, 2002. Using an international database with 103 German, UK and US ethical funds this report reviews and extends previous research on ethical mutual fund performance, and investigates whether we can observe performance and style differences between ethical funds and conventional mutual funds (www.socialinvest.org/areas/research/Moskowitz/2002_full.pdf).

▲ ***European survey on SRI and the financial community,*** by Euronext and CSR Europe, 2001. A European-wide survey amongst 302 financial analysts and fund managers which aims to capture the size of the SRI market, explore the rationale behind investors' preferences and strategies and unveil investors' expectations on the role of various actors in mainstreaming SRI in Europe. Results are available on the Internet (www.sricompass.org).

ii. Rating agencies, screening and evaluation methods

▲ ***Values for money — Reviewing the quality of SRI-research***, by SustainAbility for MISTRA, 2004. The report argues that after many years of successful growth and considerable improvements in research methodologies, the SRI research community is at a crossroads in its development. The report, based on a review of over 35 specialist SRI research organisations and supplemented with in-depth interviews with 15, concludes that SRI research organisations will have to review fundamentally many aspects of their research processes, improving the quality and independence if they are to retain and build their central role in socially responsible investment markets (www.mistra.org/open_publ.php?file_id=200).

▲ ***Screening and rating sustainability global guide,*** Triple-P Centre, Free University Amsterdam, 2002. This guide describes 28 different SRI rating agencies from around the world, their structure and staffing, strategic partnerships and clientele, products and services, and rating methodology and monitoring. It also gives brief overviews of SRI rating systems and recent developments in the SRI industry (www.triple-p.org).

▲ ***Screening of screening companies. SRI — An assessment of the quality of existing products/services***, by MISTRA (Foundation for Strategic Environmental Research), 2001. This report includes a summary of SRI-market developments and key characteristics of best practice. The analysis has focused on those products/services that consider company strategies, management systems and benchmark the companies' environmental performance (http://www.mistra.org/open_publ.php?file_id=71).

▲ ***A guide to sustainability analysis organisations,*** ORSE (Observatoire sur la responsabilité sociétale des enterprises) co-jointly with EPE and ADEME, 2001. This guide looks at organisations that evaluate the social, environmental and ethical performance of companies and the methods and criteria they apply to build ethical funds and indexes (www.orse.org/gb/home/download/guide_to_sustainability_analysis_organisations.pdf).

iii. Listing regime

▲ ***Open disclosure — Sustainability and the listing regime,*** Mark Mansley, Claros Consulting, February 2003. This report investigates the changing requirements of investors and their interest in seeing information on social and environmental factors included as part of the listing requirements; whether such information is relevant to performance; and what the UK and other countries (e.g. US, South Africa) have been doing (www.foe.co.uk/resource/reports/open_disclosure.pdf).

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