

BUSINESS AND ECONOMIC DEVELOPMENT

THE IMPACT OF CORPORATE RESPONSIBILITY STANDARDS AND PRACTICES

Insights from Recent Experiences

A Report by AccountAbility and Business for Social Responsibility
with Brody Weiser Burns

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Executive Summary	6
1.0 Background, Scope and Definitions	12
2.0 Results and Key Observations	17
2.1 What is the Role of Corporate Responsibility Standards in Economic Development?	17
2.2 To What Extent are Companies Reporting their Economic Development Impacts?	21
2.2.1 The Economic Reporters Report	21
2.2.2 Facilities Siting and Management	24
2.2.3 Employment	24
2.2.4 Product & Service Development, Use & Delivery	25
2.2.5 Sourcing and Procurement	26
2.2.6 Financial Investments and Fiscal Contributions	28
2.2.7 Philanthropy and Community Investments	29
2.3 Why are Companies Interested in their Economic Impacts? Insights from Business Practices	29
2.3.1 Economic Choices Create Social and Environmental Outcomes	30
2.3.2 Measuring and Reporting Economic Impact is an Important Tool in Managing Stakeholder Relations	32
2.3.3 Reporting is an Internal Driver of Business Change	38
3.0 Implications for Public Policy	41
3.1 Standards Need to Support Change as well Prescribe	41
3.2 Diminishing Returns Arise from a Company Acting in Isolation	42
3.3 Business Can Influence Politics in a Responsible Way	43
3.4 It is Not a Simple 'Voluntary Versus Mandatory' Debate	48
4.0 Managing Economic Development with Communities	50
4.1 Economic Impact Management Process	50
4.1.1 Identify Risks and Opportunities	51
4.1.2 Engage Significant Communities	52
4.1.3 Define Strategy to Improve Impact	56
4.1.4 Select Indicators	57
4.1.5 Measure and Manage Impact	57
4.2 Compatibility with Other Management Process Models	58
5.0 Conclusions and Next Steps	59
Appendices	61
Appendix I - Methodology	61
Appendix II - Coverage of Standards	68
Appendix III - The GRI Economic Performance Indicators	69
Appendix IV - A List of the Reporting Companies	70
Glossary	72
References	74

Case Studies

BAT	32	Shell International	40
Nike	35	Sydney Water	45
Novo Nordisk A/S	36	The Ford Motor Company	47
SABMiller	38		

This report is the product of the first phase of an ongoing collaboration between Business for Social Responsibility and AccountAbility in association with Brody Weiser Burns. Supported by The Ford Foundation, the project and publication have explored the basis by which leading companies measure, manage, and report on their economic impacts - the most direct pathway along which business creates social and environmental outcomes - in particular in disadvantaged communities. This project is designed to enhance the profile and ability of companies to manage and improve economic development by assessing what motivates and shapes their approach. Further information is available from the project website at <http://www.economicfootprint.org>.

Main contributors in terms of lead authorship were as follows:

Philip Monaghan is senior researcher at AccountAbility. An economist, he has worked extensively as a practitioner on corporate responsibility, sustainable development, and regeneration-related topics across nonprofit, public, and private sectors with consultancies WSP Group, National Centre for Business and Sustainability, and PS EPEC. Key publications with AccountAbility have included the Impacts of Reporting in association with CSR Europe and the Global Inclusion Benchmark for the Employers' Forum on Disability. Further information is available at the project website at <http://www.economicfootprint.org>

BSR staff. Christina Sabater of BSR provided primary support. Christina first started researching the intersection between business and economic development while working for a low income neighborhood association in Puerto Rico. She gained further direct experience while working for the Government of Puerto Rico and Fannie Mae. Christina has broadened her research to include the role of CSR in economic development at BSR. Christina graduated in economic and international studies from Yale University and earned an MBA from the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill.

John Weiser is a partner in the firm of Brody Weiser Burns. He specialises in working with organisations that seek to use business strategies to achieve social goals. After two years with the Boston Consulting Group, John co-founded Brody Weiser Burns in 1984 to pursue his vision of business as a force for social change. Since then he has helped businesses, non-profits, foundations, and public agencies create, build consensus around, and implement a broad range of partnership strategies. John graduated magna cum laude in mathematics from Harvard University and holds an MBA from the Yale School of Management. He is the author of several papers on the business case for corporate community involvement.

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AccountAbility
institute of social and ethical accountability

ADDRESS Unit A, 137 Shepherdess Walk
London N1 7RQ
United Kingdom

TELEPHONE +44.(0)20.7549.0400

FAX +44.(0)20.7253.7440

EMAIL secretariat@accountability.org.uk

WEBSITE www.accountability.org.uk

AccountAbility's mission is to promote accountability for sustainable development. As a leading international professional institute, AccountAbility provides effective assurance and accountability management tools and standards through its AA1000 Series, offers professional development and certification, and undertakes leading edge research and related public policy advocacy. AccountAbility has embraced an innovative, multi-stakeholder governance model, enabling the direct participation of its organization and individual members who span business, civil society organizations, and the public sector from different countries across the world.



Business for Social Responsibility

ADDRESS 111 Sutter Street, 12th Floor
San Francisco, CA 94104-4541
U.S.A.

TELEPHONE +1.415.537.0888

FAX +1.415.537.0889

EMAIL development@bsr.org

WEBSITE www.bsr.org

Since 1992, Business for Social Responsibility (BSR) has helped companies of all sizes and sectors achieve business objectives and efficiencies in ways that respect ethical values, people, communities, and the environment. A leading global business partner, BSR provides tools, training, advisory services and collaborative opportunities in person, in print and online that equip companies to make socially responsible business practices an integral part of business operations and strategies. Today, BSR member companies have nearly \$2 trillion in combined annual revenues and employ more than six million workers around the world.



BRODY • WEISER • BURNS

ADDRESS 250 West Main Street
Branford, CT 06405
U.S.A.

TELEPHONE +1.203.481.4199

FAX +1.203.481.9536

EMAIL Johnw@brodyweiser.com

WEBSITE www.brodyweiser.com

Brody Weiser Burns specializes in developing corporate community partnerships that create business value and improve the lives of low-income individuals. It provides strategic planning, stakeholder engagement, and program design for corporations, foundations, and leading nonprofit organizations.

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Shari Berenbach	<i>Calvert Foundation</i>	Michael Warner	<i>Overseas Development Institute</i>
Greg Stanton	<i>Capital Markets Access Program</i>	Nicolas Piau	<i>OSI</i>
Allen Fishbein	<i>Center for Community Change</i>	Kate Hunt	<i>P&O</i>
Jason Leonard	<i>Centrica</i>	Andrew Valentine	<i>P&O</i>
Jennifer Vasiloff	<i>Coalition of Community Development Financial Institutions</i>	Gary Brown	<i>PHS</i>
Lee Zarnikau	<i>ConocoPhillips</i>	Caroline Hill	<i>PriceWaterhouseCoopers</i>
David Smith	<i>DEMOS</i>	Alison Ramsden	<i>SABMiller</i>
Michael Ettlinger	<i>EARN</i>	Titus Fossgard-Moser	<i>Shell International</i>
Sunil Sinha	<i>Emerging Market Economics</i>	Eli de Castro	<i>Shell International</i>
Steve Walter	<i>Engineering Employers' Federation</i>	Carmen Kühnl	<i>Siemens AG</i>
Sabrin Dann	<i>Entec</i>	Ros Oakley	<i>SIGMA</i>
Margot van Zon	<i>European Foundation for Quality Management</i>	Amanda Steele	<i>Sydney Water</i>
David Dworkin	<i>Fannie Mae</i>	Mike Tuffrey	<i>The Corporate Citizenship Company</i>
Greg LeRoy	<i>Good Jobs First</i>	Stuart Robson	<i>The Environment Council</i>
Phil Mattera	<i>Good Jobs First</i>	Michele Kahane	<i>The Ford Foundation</i>
Orson Aguilar	<i>Greenlining Institute</i>	David Berdish	<i>The Ford Motor Company</i>
John Gomboa	<i>Greenlining Institute</i>	Catherine Hogue	<i>The Welfare to Work Partnership</i>
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Sister Patricia Wolf	<i>Interfaith Centre on Corporate Responsibility</i>	David Ratcliffe	<i>U.K. Department for Trade & Industry</i>
John Cavanagh	<i>International Forum on Globalization</i>	Holly Wise	<i>U.S. Agency for International Development</i>
Dori Jones	<i>London School of Economics</i>	Cheril Foreman	<i>Vauxhall Motors</i>
Helen Kerrison	<i>Manpower</i>		

Executive Summary

- What value is there in companies measuring, managing, and reporting on the economic impact of their business activities?
- What are the implications for both managers and public policy?

These questions frame this report, the first output from an ongoing program of work from AccountAbility and Business for Social Responsibility in association with Brody Weiser Burns. Funded by the Ford Foundation, this research explores the basis on which leading companies measure, manage, and report their economic impacts on poor and disadvantaged communities. This project is designed to enhance the ability of companies to manage and improve their economic development activities.

The initial phase of the programme aims to increase understanding of:

- How leadership companies are managing their economic impacts on communities
- The role of social and sustainability reporting, and broadly emerging corporate responsibility standards, in shaping how companies report on economic impacts
- The public policy implications of this research for companies, government and other stakeholders
- How corporate responsibility frameworks might better support companies interested in managing their economic impacts on communities.

The research methodology included analyzing corporate responsibility standards, reviewing social and sustainability reports, carrying out workshops and interviews with companies and advocates, and developing in-depth company case studies.

Why Does Economic Impact Matter?

Over the next five to ten years, economic impact will become the litmus test for how society judges multinational companies, with the public scrutinizing where corporations site their facilities and how they source their goods and services. Why? Because economic choices result in social and environmental outcomes and because the corporate sector is viewed, correctly, as the key driver of economic development in a global economy.

Economic Choices Create Social and Environmental Outcomes

Businesses are already under tremendous pressure to meet high standards for the social and environmental impacts of their work. But the business community and policymakers are increasingly realizing that the economic impact on poor and disadvantaged communities leads, in turn, to social and environmental effects. The more established and embedded accountability is in companies, the more economics is seen as the critical path to such desired outcomes.

The Corporate Sector is the Driver of Economic Development

In a global economy, the corporate sector is increasingly the predominant driver of economic development in low-income communities. Here are several well-known facts. Of the world's largest one hundred economic entities, fifty-one are companies and forty-nine are countries.¹ The world's top two hundred corporations account for over a quarter of global economic activity while employing less than 1 percent of its workforce.² In 1970, 70 percent of the capital flows to the developing world were from the government sector and 30 percent were from the private sector. Today, the situation is reversed: 20 percent are from the government sector and 80 percent are from the private sector.³ Accordingly, governments, nonprofits, and citizens concerned with economic development at home and abroad are focusing more and more on how corporations affect the economics of the communities they are involved with.

How well do companies understand the economic impacts of their activities and take action to manage them so that they have the desired outcomes? And in terms of public policy, how does this view differ from the economic approach of the 1980s, when it was argued that societal good was a natural by-product of individual corporations' selfish actions?

How are Companies Measuring and Managing their Economic Performance?

On Which Areas of Economic Impact are Companies Reporting?

Following a process of consultation and analysis, AccountAbility and BSR identified the six business activities that have the greatest economic impacts: facilities siting and management; employment; product and service development, use, and delivery; sourcing and procurement; financial investments and fiscal contributions; and philanthropy and community investment. The following table lists these business activities and describes their key points.

Figure 1: Relationship Between Business Activity and Economic Impact



Part of our research focused on a review of how companies are reporting on these six domains. For only two of the six did more than half of the reports we analyzed address their economic impacts on the community. Perhaps unsurprisingly these two activities were *employment* (92 percent of the company reports we analyzed discussed the economic impacts of their employment practices on the community) and *philanthropy and community investments* (82 percent of companies discussed the economic impacts of these practices on the community). Of course, both of these are well established corporate functions.

Interestingly, however, 41 percent of reports also noted a commitment by top-level management to contribute to the economic development of their community; they often had established a corporate policy and strategy, or nominated a board director to oversee this area. Yet 81 percent of corporate reports did not specifically identify or define who made up their “significant community” – that is, the group of individuals bound by common experience who affect, and are affected by, that company’s operations. Of the 19 percent that did, most referred only to local neighbors and those in close geographical proximity to their operations, rather than to those with common characteristics such as those living with deprivation or disability. Thus, it seems that many companies do not adequately identify or deal with their most significant community stakeholders. Overall, the reporting activity of most companies is very much in the early stages.

What is the Role of Corporate Responsibility Standards in Measuring, Reporting, and Managing Economic Development?

Most corporate responsibility standards address only one of the three so-called pillars of sustainable development – social, environmental, economic – to any great extent. Of these three, the economic pillar tends to be a “poor cousin” to the other two. Several international standards address economic development to *some* extent, including the APEC Code on Business Conduct, the Ethical Trading Initiative, the Global Reporting Initiative, the Global Sullivan Principles, OECD Guidelines for Multinational Enterprises, Sigma, and the United Nations Global Compact. But even these standards have serious limitations when it comes to covering the economic development dimension. First, most standards fail to distinguish adequately between the financial (which would include staff remuneration) and the economic (which would include a living wage for poor workers). As we will see later, financial issues and economic issues are quite different. Second, no framework adequately defines *who* the impacts are measured for – everyone, or only the poor and disadvantaged? Clearly, additional clarification of the economic dimension is needed.

What are the Implications for Public Policy?

In addition to their direct impact through their daily operations, businesses can affect a community’s economic development by influencing public policy. *Public policy* – in the context of this study, broadly defined as all regulations, guidelines, and standards covering corporate responsibility – is a critical influence on the economic impacts of the six business activities we analyze here. For example, political lobbying on business tax and subsidies is directly related to corporate financial investment and fiscal contributions. Although we do not frame public policy as a business activity in this study, it is a distinct pathway of accountability in itself (e.g., public position on the “voluntary versus mandatory” reporting debate).

Policymakers can create an environment where measurement, management, and reporting on economic impact take their place as productive tools for enhancing overall business performance. To attain this end, policy must consider several key points, summarized as follows:

Standards Need to Support Change as Well as Prescribe It

Public policy can support convergence around initiatives that seek to create cost-effective and standardized guidelines. This support must take account of international developments – such as the decision pending against Nike by the U.S. Supreme Court. But standards are worthless unless they influence choice and decision making. Standards should not inhibit change unnecessarily – as with the potential conflict between codes on human rights and the local labor supply in emerging markets. Instead, standards and emerging policy should ensure accountability for social impacts and sustainable development while also enabling responsible corporate decision making. *Section 4.0* of this document describes a process that aligns with existing standards, allows and guides corporate decision making, and enhances corporate economic impact with significant communities.

Diminishing Returns Arise from a Company Acting in Isolation

Collective partnerships on a sectoral or regional basis between companies and advocacy groups – NGOs, investors, governments, trade unions – will be essential to delivering desired social and environmental changes. This will be the case especially for companies in certain industries where the greatest economic

impacts are indirect or induced – as when pharmaceutical companies grapple with the issue of access to drugs in poor communities – and thus more difficult to control when they act alone. In the future, companies will have to “scale up” to national levels of competitiveness where different types of corporate responsibility clusters are already forming.

Business Can Influence Politics in a Responsible Way

Many companies seek to influence public policy. Policy changes on taxes that contribute to health and education can have immense economic effects. Companies that want to be responsible corporate citizens may choose to disclose their impact in this area – for example, report on their financial contributions to political parties and any other means they use to win political support. They may also wish to disclose their position on relevant public policy issues and the routes through which they seek to influence governments, including membership in associations, clubs, and other groups that lobby on their behalf.

It Is Not a Simple “Voluntary versus Mandatory” Debate

Regulation is a question of balance. It is important to move beyond the misleading “voluntary versus mandatory” debate. There are countless examples of businesses that support regulation to level the playing field yet also achieve social and sustainability benefits through nonstatutory, partnership models. Sequencing of rule-making is key, because preemptive standardization can be just as damaging as an “anything goes” approach to reporting and assurance. In practice, many national governments in North America, Europe, and around the world are actively considering statutory policies on economic development as well as reporting and assurance. For example, legislation requiring mandatory disclosure already exists in the U.K. and the U.S.A. on political donations and community reinvestment, respectively. Several voluntary initiatives have also successfully sought to encourage and enable enterprise to drive inner-city revitalization, notably the Inner City 100 indices, again in the U.K. and the U.S.A.

What Are the Implications of This Research for Business Managers?

We have developed a framework – the Economic Impact Management Process – to help companies measure and manage their impact on community economic development. It is a cycle of continual performance improvement through ongoing innovation and learning, from the initial identification of risks and opportunities to the selection of performance and impact indicators (with accompanying targets) across predetermined areas of corporate responsibility.

The process has **five** key sequential elements: Identify risks and opportunities; Engage significant communities; Define strategy to improve impact; Develop indicators; Manage and improve impact.

Figure 2: Process Summary for Economic Impact Process



This framework builds on contemporary corporate responsibility standards. It draws on the four-step process principles of “plan, do, check, act” common to ISO environmental and quality management standards such as ISO14001 and ISO9001. Through its emphasis on stakeholder engagement and risk management it links with other frameworks, notably AA1000S, EFQM Business Excellence Model, the GRI Sustainability Reporting Guidelines, and SA8000. As a result, the framework may be mapped over and integrated with existing corporate policies, strategies, and systems. For instance, with respect to AA1000S, core quality principles derived here relate to *completeness* (or full coverage across areas of impact), *materiality* (or relevance of information provided), and *responsiveness* (or engagement of stakeholders).

What are the Next Steps?

Companies and advocacy groups are invited to help shape forthcoming research in Phase Two of this program along the following lines:

- 1 Deepen understanding of how companies can best engage in economic development, with a particular focus on the international dimension in the Southern Hemisphere.
- 2 Identify and develop business strategies and public policies in specific industries (e.g., agriculture, apparel, extractive, pharmaceuticals) that are likely to enhance the role of business in contributing to economic development.
- 3 Disseminate the need for and the means by which businesses’ economic development impacts can be managed as part of their broader corporate responsibility strategy and practices.

The proposed approach seeks *a strategy to “normalize” economic development as an aspect of business performance and outcomes*. In other words, it should be handled alongside other business functions, using the same tools and management structures, and enhanced where necessary through new competencies and metrics.

Note to Readers on Use and Users of this Research

This report aims to stimulate debate by addressing a wide range of key audiences:

- Company representatives involved in corporate responsibility or economic development activities, and the wider business community
- The financial community, in particular socially responsible investment (SRI) fund managers and rating indices
- International standard-setting bodies
- Policymakers in government
- Other influential advocacy organizations, including human rights and environmental groups, professional service providers, and trade unions.

Clearly, different audiences will be most interested in different sections of this report. To save readers time and energy, we offer the following suggestions for where some of you might most profitably turn in the text:

- *Company representatives*: Start with *Section 4.0*, a practical guide to managing a company’s economic impact on its significant communities. *Section 2.0*, which provides information on what your peers are reporting on, may be of interest as well.
- *The financial community, in particular SRI fund managers and rating indices*: Focus primarily on *Section 2.0*, which provides a detailed look at what companies are reporting and innovative ways in which leadership companies are addressing their economic impacts.

- *International standard-setting bodies and policymakers in government:* Start with *Section 3.0*, which describes implications for public policy. *Section 2.0*, which provides a detailed look at what companies are reporting, and innovative ways in which leadership companies are addressing their economic impacts, may also be of interest. *Section 5.0* details the future activities of the research project and would be of interest to anyone who would like to shape the progress of work in this field.
- *Advocacy organizations:* Begin with *Section 2.0*, which provides a detailed look at what companies are reporting on and innovative ways in which leadership companies are addressing their economic impacts. *Section 4.0*, which provides a detailed and practical methodology by which companies can measure and manage their economic impact, may also be useful for engaging in dialogue with companies. *Section 5.0* details the future activities of the research project and would be of interest to anyone who wants to help shape work in this field.

1 Background, Scope and Definitions

1.1 Background

There is an increasing recognition among businesses and policymakers that the economic impact of corporate activity on poor and disadvantaged communities, domestically and internationally, has important social and environmental outcomes. In the face of civil society's discontent over the boundaries of corporate responsibility, debate is growing over how businesses should measure, manage, and report on their economic performance.

Who are the Poor and Disadvantaged?

A textbook description of absolute poverty means not having the basics to sustain human life. An income of US\$1 a day has been adopted as the international breadline by which to measure levels of poverty, but in the middle-income economies, a poverty line of US\$2 is closer to the practical minimum. Although the greatest number of poor people reside in South Asia and Sub-Saharan Africa, poverty also thrives in North America and Europe. Within countries, poverty is most concentrated among certain disadvantaged

groups such as: households headed by women or children; rural households; the elderly or disabled; people with lower levels of education; minority ethnic and religious groups. Thus, being poor and disadvantaged is more than a simple lack of income for food, clothing and shelter, it also relates to poor health, lack of education, and insufficient access to basic utilities such as water and sanitation.

Source: IBLF, Business and Poverty: Bridging the Gap, 2002

This has been most notable since the U.N. Development Goals were established in New York in 2000 and the more recent deliberations at the World Economic Forum which took place in Davos in early 2003.

UN Millennium Declaration

At the Millennium Summit in September 2000 the states of the United Nations (U.N.) reaffirmed their commitment to working toward a world in which sustaining development and eliminating poverty would have the highest priority. The Millennium Development Goals grew out of the agreements and resolutions of world conferences organized by the U.N. in the past decade.

- 1 Eradicate extreme poverty and hunger
- 2 Achieve universal primary education

- 3 Promote gender equality and empower women
- 4 Reduce child mortality
- 5 Improve maternal health
- 6 Combat HIV/AIDS, malaria, and other diseases
- 7 Ensure environmental sustainability
- 8 Develop a global partnership for development.

The goals have been commonly accepted as a framework for measuring development progress.

Source: www.developmentgoals.org

Income inequality is rising at a rapid and destabilizing rate across the world. As we mentioned in the Executive Summary, it has been calculated that fifty-one of the one hundred largest economies in the world are corporations, with companies such as General Motors having sales equivalent to the gross domestic product of Denmark (Zadek, 2001).⁴ The antiglobalization and corporate responsibility movements are both responses

“...The emphasis of the debate in corporate social responsibility has come to focus on the impacts of core business. In terms of social and economic development, extractive companies are looking more and more at the contribution that their core business can make to local development.”

E Bickham, *Executive Vice President, Anglo American*

Source: *CSR Magazine, January 2003, CSR Europe*

to such perceived inequalities: campaigners decry the seeming omnipotence of corporations while businesses seek to address inequality through corporate responsibility initiatives. The economic impacts of businesses on communities are fundamental to the arguments of both sides. But how well do companies understand their impact? What actions do they take? How does the issue affect their business performance, and ultimately the communities they are involved with? Furthermore, why should businesses explore the implications for their core business strategies, such as where they choose to site their facilities or how they account for their performance to the public? Finally, is this whole issue simply a revisiting of the “trickle-down effect” of laissez-faire economics that predominated during the 1980s?

1.2 Scope and Goals of the Project

In this first phase of the ongoing partnership work from AccountAbility and Business for Social Responsibility working in association with Brody Weiser Burns, we examined how leading companies measure, manage, and report on their economic impacts on poor and disadvantaged communities, analyzing their reporting for completeness, relevance (or materiality), and responsiveness to stakeholder concerns.

A Definition: Economic Development for a Community

“A process by which communities can initiate and generate their own solutions to their common economic problems and thereby build long-term community capacity and foster the integration of economic, social and environmental objectives.”

Source: *Simon Fraser University, Canada, 1987*

Economics: An Elusive Dimension of Accountability

“The most elusive dimension of performance, and therefore accountability, remains the economic. Historically, economic performance has been confined to the financial, that is, the cash valuation of transactions into and out of a company’s accounts, as well as return on capital employed”.

Source: *SustainAbility Ltd & UNEP, The Global Reporters, 2002*

The project is designed to enhance the ability of companies to manage and improve their economic development activities by assessing what motivates and shapes their approach.

The intention of this report is to increase understanding of:

- How leadership companies are managing their economic development effects on poor and disadvantaged communities, domestically or internationally
- The place of economic development in social and sustainability reporting, and more broadly in emerging corporate responsibility standards
- The public policy implications for companies, governments, and other stakeholders
- How management frameworks might better support economic development performance.

The research methodology was as follows:

- i We created an overall framework of economic impacts aligned with business activities.
- ii We analyzed contemporary corporate responsibility standards to determine the extent to

which they address the economic development of poor and disadvantaged communities.

- iii We assessed sixty-eight social and sustainability reports on their coverage of their economic development performance to ascertain how they are currently reporting the measurement and management of their impacts.
- iv We held three workshops in the U.K. and the U.S.A. with company representatives and advocacy groups to share learning, give feedback on the preliminary findings, and plan future work.
- v We used e-mail and telephone surveys to support findings from the three workshops.
- vi We held seven company interviews, which provided practical in-depth case studies from different sectors and regions of operation around the world.
- vii We carried out a literature review to assess related academic research and applied studies.

The report aims to stimulate debate among a wide range of key audiences:

- Company representatives involved in corporate responsibility and economic development activities, and the wider business community
- The financial community, in particular socially responsible investment (SRI) fund managers and rating indices
- International standard-setting bodies
- Policymakers in government
- Other influential advocacy organizations, including pressure groups, professional service providers, and trade unions.

[Section 1.3](#) of this report defines economic impact and performance. [Section 2.0](#) details the project's results and key observations. [Section 3.0](#) discusses the role of public policy. [Section 4.0](#) proposes our framework, which is compatible with leading corporate responsibility standards, to enable companies to manage their economic performance at the community level. The study's conclusions and suggested next steps are provided in [Section 5.0](#). Finally, a full description of the research methodology is given in [Appendix I](#).

1.3 Definition of Economic Performance

As the box below explains, the starting premise of this research is that the traditional notion that financial performance equates to economic performance is inaccurate.

Financial ≠ Economic

The terms “economic” and “financial” simply do not mean the same thing. According to Tuppen and Zadek (BT, 2000)⁵, *financial* refers to the market valuation of a company’s transactions. In contrast, *economic* refers to activities beyond the boundaries of a single organization, taking into account social and environmental activities, and ultimately, outcomes for stakeholders at large. Yet the economic element of sustainable development has generally been taken to be synonymous with financial performance. Furthermore, in many languages the two terms are translated the same way.

For example, let’s look at the economics of sustainable business for British Telecom (BT). Major indirect impacts include this company’s effects on the U.K. economy; Information, Communications & Technology sector (ICT) and productivity; ICT and economic divides; global, regional, national, local effects; effects on the knowledge economy; and effects on a digitally literate workforce. The figure shown here depicts these effects. The economic impact on income and employment is summarized in the following table. Induced impacts are greater than direct or indirect impacts.

TOTAL INCOME AND EMPLOYMENT IMPACT OF BT IN U.K.

Type of Impact	Income (UK £bn)	Employment
Direct	2.866	101,226
Indirect	2.062	100,790
Induced	2.957	144,530
Total	7.885	346,546

Source: DTZ Consulting, 2002

Financial measures can capture elements of economic performance in principle. For example, in theory if the actual financial price of all goods and services were equivalent to their “full economic” price through the incorporation of all social and environmental costs and benefits, then financial measures would be an indication of the implication for sustainable development of producing, selling and consuming the priced good or service. The financial accounts of a company in their current form miss much of what is important in economic terms. There are, however, cases that illustrate the innovative use of financial data. SABMiller for example, reports on distribution of the financial value it creates across its different stakeholders, highlighting the outcomes arising through the economic pathway. (Refer to case study in [Section 2.3.3](#) for more details).

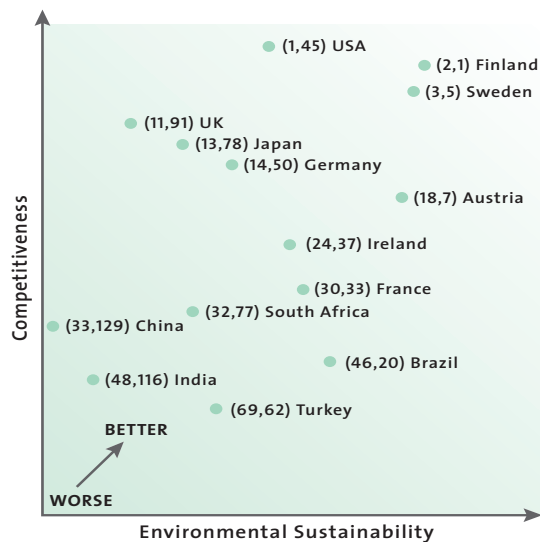
Before we start to examine business’ influence on community economic development, it is important to recognize that there is a lot of disagreement about the kinds of regional economic growth that support economic development (BT, 2000)⁶. Growth in economic activity does not necessarily equate with reduced poverty, a better environment, greater equality, or a higher quality of life. The World Economic Forum, for instance, recently released a country-by-country index on competitiveness and environmental sustainability that illustrated that the two do not necessarily positively correlate. As depicted in [Figure 3](#), Germany for instance comes in 14th on the competitiveness stakes, whilst ranking 50th in environmental sustainability⁷. In other words, we need to understand better the economic impacts of business and their relationship to sustainable development.

Even less clear is the relationship between specific corporate activities – such as financial investment, or procurement and sourcing – and their impacts on the economy, the local quality of life, and the environment. Is one job created in Vietnam worth two in the United States since the situation in Vietnam is more dire and the indirect positive impacts of one job may be greater?

As we saw in the box above, the economic and the financial are not equivalent. Bannock et al. (1987)⁸ define the financial as *the provision of money when and where required*. In contrast, the economic refers to *the production, distribution, and consumption of wealth in human society*. The GRI Sustainability Reporting Guidelines (2002)⁹ conclude that the economic dimension of sustainability refers to an organization’s impacts on the economic circumstances of its stakeholders and on economic systems at the local, national, and global levels. According to GRI, economic impacts can be divided into direct and indirect impacts, and can be positive or negative: “Broadly speaking, economic performance encompasses all aspects of the organization’s economic interactions, including the traditional measures used in financial accounting and the intangible assets that do not systematically appear in financial statements.”

This study reviewed two sorts of economic relationships: first, the economic flows and relationships that a company has with such stakeholders as employees, suppliers, customers, competitors, communities, and regulators or fiscal authorities; and second, the ways in which corporate activities alter the balance of capital stocks in a community – not just technological or industrial but also human and natural capital. These effects may be both positive and negative – for example, a company’s training program may boost its own human capital as well as that of the society in which it operates, but at the same time that company’s products and services (such as tobacco products) might deplete human capital, and similarly, environmental capital. This concept is captured in the research’s framework of business activities, which recognizes that some impacts are socioeconomic, straddling two or more pillars of sustainable development, such as community investment and philanthropy.

Figure 3: Competitiveness and Environmental Sustainability



Source: World Economic Forum, Global Competitiveness Report, 2002

2 Results and Key Observations

2.1 What is the Role of Corporate Responsibility Standards in Economic Development?

Key Learning

- There are serious limitations to how well emerging process, reporting, and assurance standards are adequately sensitive to the economic dimension of corporate responsibility – both in terms of *what* issues they cover (e.g., labor or charitable giving) and *how* they are prescriptive and enable change (e.g., a prescriptive code of conduct versus an enabling management system).
- There is confusion and inconsistency among the standard-setting bodies in the differentiation between *financial* and *economic* performance. There is also insufficient framing; standards do not clarify whether the impacts should be examined in relation to everyone or just poor and disadvantaged communities.

Standards are intended to provide robustness and consistency to a particular area of performance based on emerging expectations and consensus among practitioners and society at large. To understand the effectiveness of the current corporate responsibility standards in helping companies measure, manage, and report their economic impact, this document first details which standards include an economic dimension to impact or performance and then reviews the function or role of these standards in this respect.

Which Corporate Responsibility Standards Address Economic Impacts?

Most corporate responsibility standards address only one of the three pillars of sustainable development (social, environmental, economic) to any great extent. Of these three, the economic pillar tends to be the “poor cousin” to the other two.¹⁰

As summarized in [Table 1](#) (over page), several standards address economic development to *some* extent, namely: AA1000S, Amnesty International’s Human Rights Guidelines for Companies, APEC Code on Business Conduct, ASPI, Balanced Business Scorecard, DJSI, EFQM, ETI, FTSE4Good, GRI, Global Sullivan Principles, OECD Guidelines for Multinational Enterprises, Sigma, TNS, and UN Global Compact. (A list of all standards covered in this study is detailed in [Appendix II](#).)

“We will work with governments and communities in which we do business to improve the quality of life in those communities - their educational, cultural, economic and social well-being - and seek to provide training and opportunities for workers from disadvantaged communities.”

Source: Global Sullivan Principles

GRI offers the most comprehensive array of sustainability themes and metrics and is increasingly gaining the acceptance of the international business community. (Current use of the GRI Economic Performance Indicators by reporting organizations is assessed in [Section 2.1.1](#).)

The Economic SubGroup1 of the Measurement Working Group has published GRI Economic Performance Indicators. (Refer to [Appendix II](#) for a list of these indicators.) The GRI has also developed the concept of integrated indicators of multidimensional performance – or “cross-cutting integrated indicators” – which will help companies address the areas of impact that cut across the pillars of sustainable development.¹¹

Table 1: Inclusion of Economic Impacts/Performance by Standards

STANDARD	ASPECT		
	Economic	Social	Environmental
Aspirational Principles and Codes of Practice			
Amnesty International Human Rights Guidelines for Companies	✓	✓✓	-
APEC Code of Business Conduct	✓	✓	✓
Balanced Business Scorecard	✓	✓	-
Caux Principles for Business	-	✓	-
ECCR/ICCR	-	✓	-
Ethical Trading Initiative (ETI)	✓	✓✓✓	-
Global Sullivan Principles	✓	✓✓	-
OECD Guidelines for Multinational Enterprises	✓	✓	-
The Natural Step	✓	✓	✓✓✓
UN Global Compact	✓	✓	✓
WHO/UNICEF Breastmilk	-	✓✓	-
Management Systems and Certification Schemes			
EFQM Business Excellence Model	✓	✓✓	✓✓
EMAS	-	-	✓✓✓
EU Eco-label	-	✓	✓✓
Forestry Stewardship Council (FSC)	-	✓	✓✓
ISO9000	✓	✓	✓
ISO14001	-	-	✓✓
SA8000	-	✓✓	-
Sigma	✓	✓✓✓	✓✓✓
Rating Indices			
Arese Sustainable Performance Indices (ASPI)	✓	✓✓	✓✓
Dow Jones Sustainability Index (DJSI)	✓	✓✓	✓✓
FTSE4Good	✓	✓✓	✓✓
Accountability and Reporting Frameworks			
AA1000S	✓	✓✓✓	✓
GRI	✓✓	✓✓✓	✓✓✓

KEY	✓✓✓	Inclusion, with extensive coverage
	✓✓	Inclusion, with some coverage
	✓	Inclusion, with minimum reference
	-	No inclusion

Although many of the standards include economic indicators, there are still serious limitations and constraints. First, there is confusion and inconsistency in the differentiation between financial and economic performance – which, as noted earlier, do not equate. Second, there is no framework for understanding *who* the impacts should be measured for – everyone, or only the poor and disadvantaged? The next challenge for corporate responsibility standards will be to address these limitations.

“Most existing ‘sustainability’ management tools and systems are mainly written by environmentalists and social scientists. Some do refer to economic sustainability but are sketchy in a way that would be inadequate for actually managing a real business.”

Source: *The Sigma Project, Economic Sustainability – The Business of Staying in Business, 2001*

Scope of the Standards

It is important to understand *how* standards work in practice as well as *what* aspects they cover. *Table 2* maps the various standards according to applicability for geographic, company, sector, and operational function.

Table 2: Geographic, Sector, and Business Process Scope

STANDARD	COMPANIES ELIGIBLE		SCOPE OF OPERATIONAL COVERAGE			
	Companies covered	Sectors covered	Stakeholder focus	Business function	Operations coverage	Main areas take up so far
Aspirational Principles and Codes of Practice						
Amnesty	Global	All	Local communities, staff	Personnel, security	Global	NI
APEC Code of Business Conduct	Global	All	Broad	All	Global	Asia-Pacific
Balanced Business Scorecard	Global	All	Shareholders, customers, and employees	All	Global	U.K. and U.S.A
Caux Principles for Business	Global	All	Broad	All	Global	n/a
ECCR/ICCR	Global	All	Communities, employees, customers, suppliers and contractors governance and the environment	All	Global	n/a
ETI	Companies selling to U.K. markets	Manufacturing	Staff in supply chains	Sourcing	Global supply chains	U.K. clothing and food retailers
Global Sullivan Principles	Global (includes nonprofits and public bodies)	All	Staff, local communities	Employment, community investment	Global	U.S. organisations
OECD Guidelines for MNEs	OECD based multi-nationals companies	All	Broad	All	Global	n/a
The Natural Step	Global	All	Broad	All	Global	NI
UN Global Compact	Global	All	Broad	All	Global	NI
WHO / UNICEF Breastmilk	Global	Food, Healthcare	Customers	Marketing	Global	n/a
Management Systems and Certification Schemes						
EFQM	European (includes nonprofit and public bodies)	All	Employees, customers and shareholders	All	Global	Europe
EMAS	European (includes nonprofit and public bodies)	Industrial Focus	n/a	Manufacturing	Global	NI
EU Eco-label	Companies selling to European markets	Limited range of consumer products	n/a	Product, design, manufacture, and disposal	Product-based	NI
FSC	Global	Forestry and wood products	Local communities, staff, and the environment	Forest management	Product-based	NI
ISO9000	Global (includes nonprofit and public bodies)	All	Suppliers	Environmental management	Global	U.K., SE Asia, and Australia
ISO14001	Global (includes nonprofit and public bodies)	All	Customers, staff and suppliers	Quality	Global	U.K., SE Asia, and Australia
SA8000	Global	Manufacturing	Staff	Employment	Site based	Clothing, and toy manufacturers in China
Sigma	U.K.	All	Broad	Employment	Site based	n/a (piloting)

Table 2 (continued): Geographic, Sector, and Business Process Scope

STANDARD	COMPANIES ELIGIBLE		SCOPE OF OPERATIONAL COVERAGE			
	Companies covered	Sectors covered	Stakeholder focus	Business function	Operations coverage	Main areas take up so far
Rating Indices						
ASPI	European quoted companies	All	Community, customers, suppliers and employees	All	Global	n/a
DJGSI	Dow Jones quoted companies	All - with some exclusions	Staff in supply chains, local communities	All	Global	n/a
FTSE4Good	FTSE quoted companies	All - with some exclusions	Staff in supply chains, local communities	All	Global	n/a
Accountability and Reporting Frameworks						
AA1000S	Global (includes nonprofit and public bodies)	All	Broad	Stakeholder engagement, risk and governance, assurance	Global	n/a
GRI	Global	All	Broad	Reporting	Global	n/a
KEY	n/a	Not applicable				
	NI	No information available				

Function of Standards

Standards also can be catalogued by their function, or the degree to which they:

- Achieve a *link* in tying together business and sustainability performance (e.g., DJSI, FTSE4Good)
- Are *enablers* for businesses to enhance their internal processes for corporate responsibility-related activities (e.g., BBS, AA1000S, EFQM)
- Provide an *end point* or disclosure frameworks (e.g., GRI)
- Create *visibility signals* that establish credibility with user groups through certification or verification (e.g., AA1000S, FSC, SA8000).

For example, the GRI is an “end point” solution. The end point in this case is the process of identifying areas of corporate responsibility and then accounting for sustainability performance. However, although there is diversity in the myriad corporate responsibility standards (which, although sometimes necessary, can be confusing for users), there are significant synergies as well.

Another way to use standards is to recognize which ones enable organizational learning. A few corporate responsibility standards seek to provide principles for establishing systems for organizational accountability. For example, AA1000S has stakeholder engagement as its fundamental basis; it argues that this is the essential platform for demonstrating all facets of corporate responsibility, including environmental stewardship. Rather than establish prescriptive rules, this standard empowers people in organizations to understand why businesses should be accountable and how an organization can maintain a corporate responsibility initiative. (Section 3.0 discusses the public policy implications for prescriptive and enabling standards.)

From Standards to Practice

Most corporate responsibility standards are aimed at measuring, managing, and reporting at the corporate level. This is critically important, but most managers need help understanding the economic impact on

specific communities of the operations that they control. A company may already use the GRI, AA1000S, and other standards at the corporate level, but these do not provide specific guidance for managing economic impact on specific communities. [Section 4.0](#) of this report extends the guidance by proposing a framework for risk and opportunity management, stakeholder engagement, and indicator development at the business unit, sector, and geography level that builds on and is compatible with the most important corporate responsibility standards. This framework was developed to enable companies to manage their economic impacts with significant communities according to need.

2.2 To What Extent are Companies Reporting their Economic Development Impacts?

Key Learning

- Corporate reporting on economic issues and impact is limited, both in quality and quantity.
- Where reporting on economic impacts does occur, it tends to focus on measuring the corporation's inputs rather than the outputs or induced effects, even though these are more important.
- The few companies that demonstrate good practice in reporting economic development tend to have a clearly articulated business case for corporate accountability that links closely to their core strategy.

In this part of the study we present our findings on the extent to which leading corporate social and sustainability reports publicly demonstrate that corporations are addressing economic development as a business and societal priority. (The diagnostic tool and sample set used to analyze reports is detailed in the full methodology in [Appendix I](#).) Section 2.2.1 provides an overview of the frequency of reporting of different types of indicators. Sections 2.2.2 to 2.2.7 examine in detail the reporting for each type of indicator.

2.2.1 The Economic Reporters Report

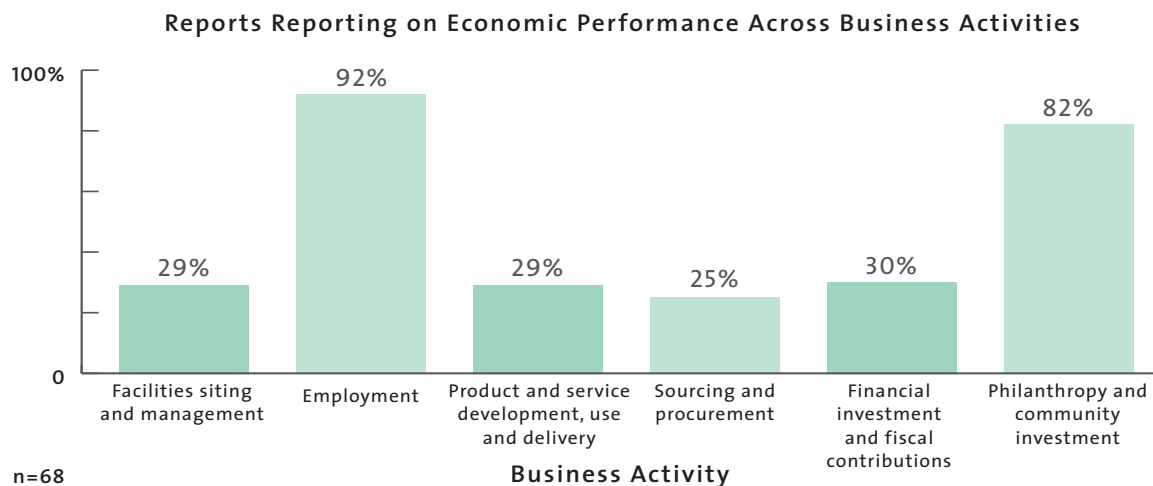
This section looks at the overall frequency of reporting by type of indicator. Following a process of consultation and analysis, the research team identified six business activities that have the greatest economic impact. These six activities are the areas in which economic development could be expected to appear in social and sustainability reports as evidence of a corporate responsibility profile:

- 1 Facilities siting and management
- 2 Employment
- 3 Product and service development, use, and delivery
- 4 Sourcing and procurement
- 5 Financial investments and fiscal contributions
- 6 Philanthropy and community investment.

The team then used these six functions to analyze the responses of the companies reporting on economic impact.¹

¹ It is worth noting that Public Policy, while not classified here as another domain in this study, is one of several critical channels influencing economic development through the other six domains (e.g., political lobbying on business tax in terms of Financial investment and fiscal contributions), as well as it being a distinct pathway of accountability in itself (e.g., public position on the "voluntary versus mandatory" reporting debate). Refer to Section 3.0 for further details.

The following figure shows the percentage of company reports reviewed that looked at economic development based on the six business activities.



The key findings were as follows:

- **Facilities siting and management:** 29 percent of the reports indicated that the company has looked at the economic impacts on the community of its site selection before proceeding.
- **Employment:** 92 percent of reports discussed issues of job creation and labor relations.
- **Product and service development, use, and delivery:** 29 percent of the reports said the company had examined the economic impacts on the community before introducing new production and service processes.
- **Sourcing and procurement:** 25 percent of companies had discussed the economic impacts of their sourcing activities.
- **Financial investments and fiscal contributions:** 30 percent of the companies investigated the economic impacts of their investments on their communities.
- **Philanthropy and community investments:** 82 percent of the reports commented on charitable donations and global giving programs.

Thus, more than half of the reports looked at economic impacts on the community for only two business functions. As noted earlier, these were *employment* and *philanthropy and community investments*. This finding is supported by the conclusions of the latest “Global Reporters Report” by SustainAbility Ltd. for UNEP.

Interestingly, 41 percent also reported a commitment by top-level management to economic development of the community – if only in the form of corporate policy and strategy, or a nominated board director. Nevertheless, 81 percent of corporate reports did not specifically identify their “significant community,” and of the 19 percent that did, most referred to local neighbors and those in close geographical proximity to their operations as opposed to those bound by a common characteristic (e.g., having a disability, living in poverty, and so on).

Although corporate reports from a variety of international organizations and sectors were analyzed, those that contained information relevant to this report were most often of European or North American origin.

“Economic impacts — both positive and negative — are widely recognized as intimately linked with environmental and social impacts. The latest crop of reports indicate a growing sense in the business world that balanced coverage of this area will be increasingly important. But reporting on this area is best labelled as a ‘work in progress’...”

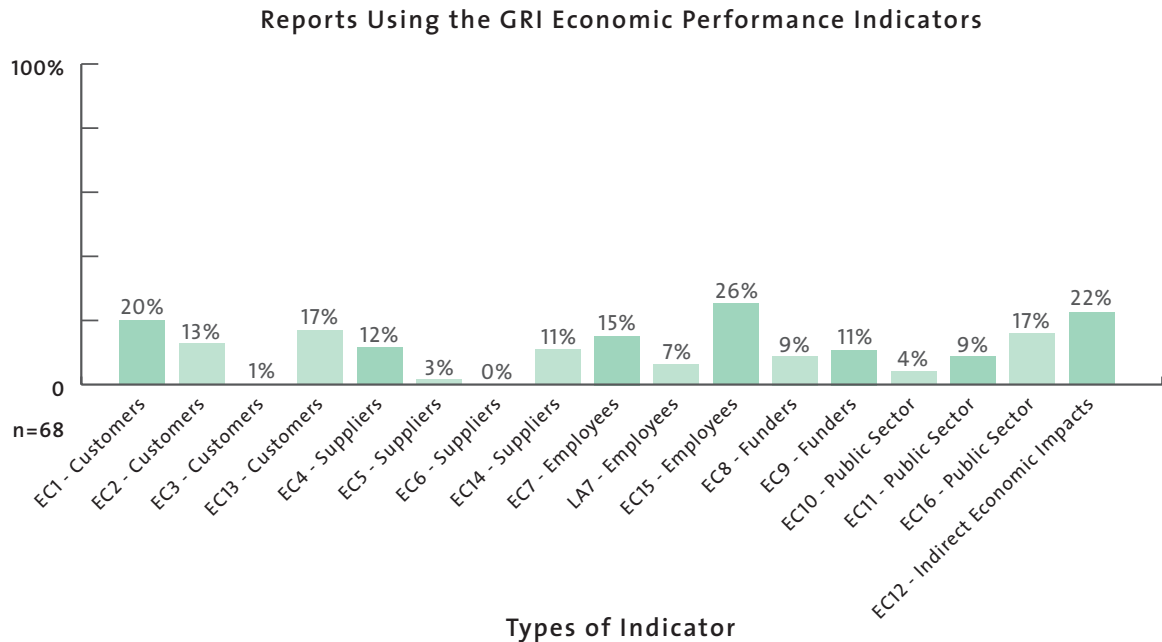
“...Corporate philanthropy and bland balance sheets are the norm, with little exploration of the deeper economic dimensions that shape a company’s operations, let alone its wider economic impacts.”

Source: SustainAbility Ltd & UNEP, Trust Us, 2002

(See [Appendix IV](#) for a complete list of all reports assessed here.) Different sectors reported on certain areas, but no single sector reported consistently well across all six. Nevertheless, good practice is identifiable among leadership companies, including, for example, STMicroelectronics (facilities siting and management), in the IT and telecommunications sector in Italy; ABB (employment), in the engineering sector in Sweden/Switzerland; BAA (sourcing and procurement), in transport in the U.K.; Co-operative Bank (product and service development, use, and delivery), in the financial services sector in the U.K.; VanCity (financial investments and fiscal contributions), in financial services in Canada; and IBM (philanthropy and community investments), in technology in the U.S.A. It is difficult to draw any further conclusions in terms of industry and geography at this stage, however, because corporate responsibility and reporting quality and activity vary across geographic regions and corporate sectors. Future research should probe a larger sample of reports across business groups and geographical spread to enable such an analysis.

When indicators are used in reports, they generally tend to be input indicators; output indicators are much less common. In all the reports, indicators on outcomes were rare. Similarly, few companies reported on their induced economic impacts even though for many these may represent the greatest effect. (For definitions and explanations of the different types of indicators and impacts see [Appendix I](#)). The use and quality of measuring stakeholder engagement in this process appears to be modest at best. Finally, only a minority of companies use indicators endorsed or developed by indicator-based corporate responsibility frameworks such as the GRI; here, the greatest incidences amounted to at most one-quarter, such as in relation to customers (EC1) and employees (EC15), as illustrated in the following figure. (See [Annex III](#) for a descriptive list of the GRI Economic Performance Indicators.)

Overall, reporting on economic activity is very much in the early stages for most companies and they need assistance in developing output and outcome metrics.

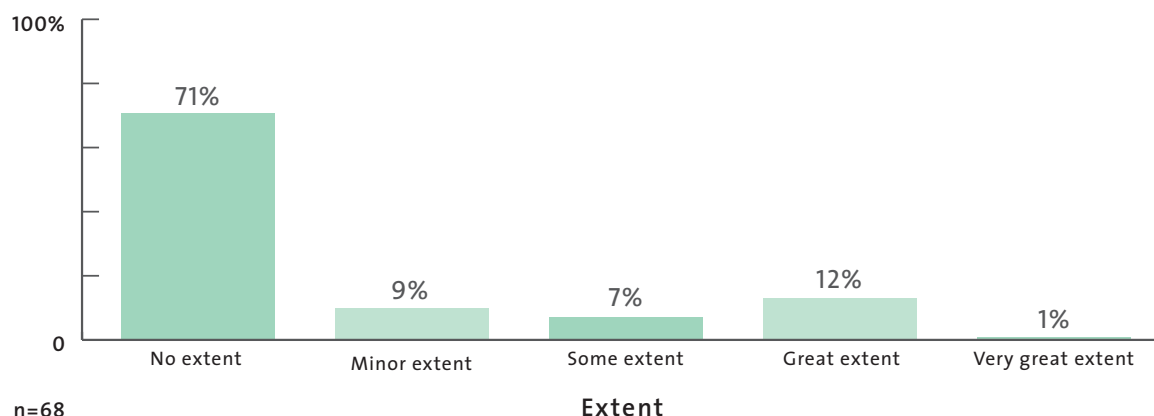


We now turn to the six broad business activities and review corporate economic impact reporting in detail for each of them.

2.2.2 Facilities Siting and Management

The siting of facilities is known to have significant economic impacts on local communities, as well as important impacts on corporate costs and operating efficiencies. Siting of a facility in a community can create positive economic impacts through the generation of income and local tax revenues and the creation or maintenance of local employment and business support (through construction and operation), as well as being a potential catalyst for wider investment in a region. However, it also can create negative economic impacts through increased demands on infrastructure, public services, and natural resources, and through the displacement of existing businesses or other means of earning a wage.

To What Extent Does the Report Indicate the Company has Explored the Economic Impacts on Community of its Facilities?



The study found that only 29 percent of the reports analyzed indicated that the company had systematically explored the economic impacts of its site selection on the local community. Of these companies, about half did so to a great or very great extent. For example, STMicroelectronics in Italy detailed how the regional economic development benefits of clustering¹² informed their site selection decision.

Good Practice

“In Catania, “Etna Valley” is becoming as well known as the trailblazing Silicon Valley in California... Other companies, including IBM, Nookiea, Magneti Marelli, have been attracted by the infrastructure, services and contacts with the public and academic institutions... Some 60 businesses have been founded to serve the local high technology industry, employing over 2,000 people.”

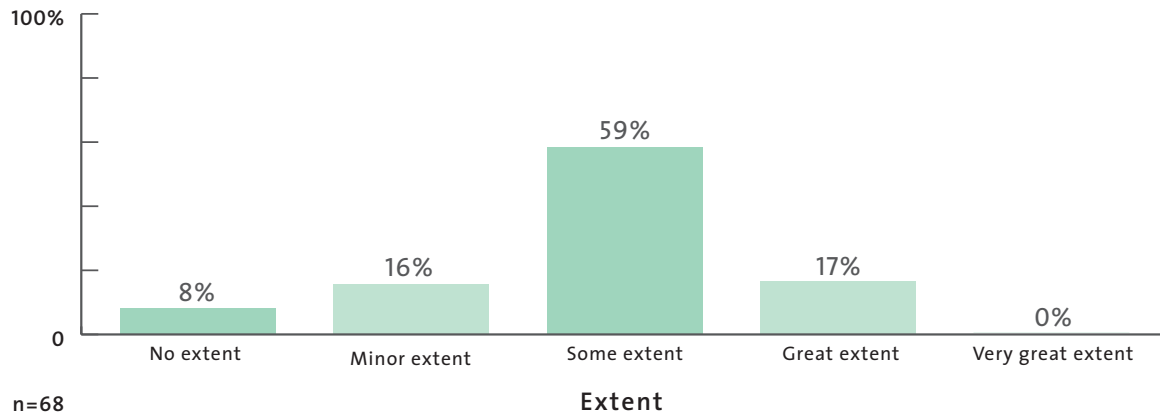
Source: STMicroelectronics, Corporate Environmental Report and Social Review 2001, p15

Twenty-one percent of the reports provided an output indicator of the economic impact for facilities siting. Just 15 percent of reports indicated that the company had measured or audited community perceptions of the economic impacts of facilities siting. Of these, only about one in ten indicated that the quality of stakeholder engagement in relation to siting was either good or very good.

2.2.3 Employment

A company’s role as an employer is one of the most important drivers of a community’s economic development. Employment may be direct, through permanent and contract jobs, or it may be indirect, through supplier and outsourcing contracts. The unemployment rate and richness of labor market skills are both used as health checks of an economy’s strength. But issues such as personal development and diversity of the workforce, and especially representation of disadvantaged groups, are recognized as important for society as a whole as well as for the individuals or groups concerned.

To What Extent Does the Report Indicate the Company has Explored the Economic Impacts on Community of its Employment?



The vast majority of the social and sustainability reports – 92 percent of them – addressed workforce development in some capacity. Of these, one in five did so to a great or very great extent.

Good Practice

“ABB was ranked as an employer of choice in surveys during 2001 in nine countries (out of 41 countries sampled): Brazil, Denmark, Egypt, Finland, Ireland, South Africa, Sweden, Switzerland and the U.K. Job satisfaction surveys were conducted in 2001 among ABB employees in 21 countries... satisfaction levels ranged from 71% (Sweden) to 78% (India, conducted by Gallup) and up to 90% (China and Switzerland).”

Source: ABB, Group Sustainability Report 2002, p20-21

Fewer than half of the reports had input indicators of workforce development. Thirty percent had an output indicator of the economic impact for workforce and labor development. Twenty-four percent indicated that they had measured community perceptions of economic impact in terms of workforce and labor development. An example of an output and outcome indicator is shown in ABB’s job satisfaction surveys. (See the box on ABB.)

Relatively few of the reports sampled indicated that companies followed the GRI Economic Performance Indicators for measurement in this area. Our results were as follows:

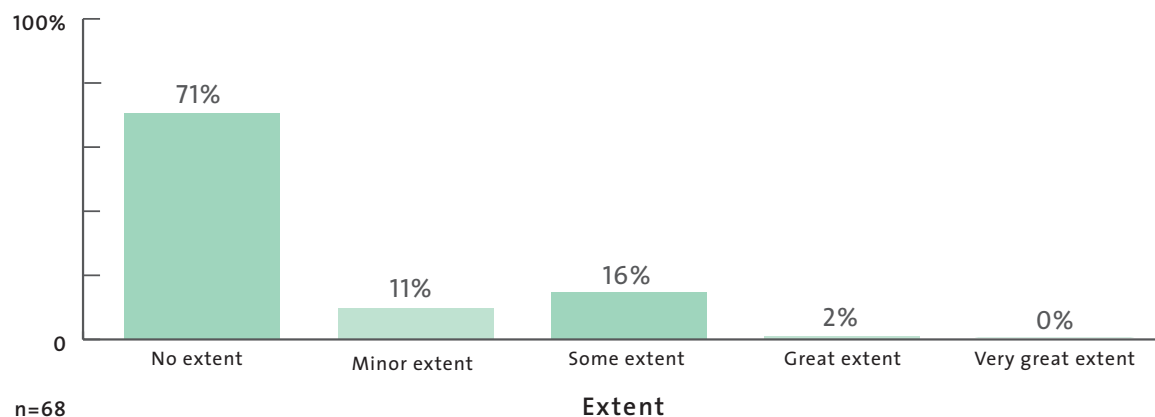
- **EC7: monetary value of total remuneration to employees broken down by geographical region.** Only five reports included this indicator.
- **LA7: average hours of training per year per employee by categories of employee.** Only six reports included this indicator.
- **EC15: employee perception of value of relationship with reporting organization in economic terms.** Some 26 percent of reports included this indicator.

2.2.4 Product and Service Development, Use, and Delivery

The economic effect of how a company manages its products and services primarily stems from its pricing and marketing mechanisms. The delivery channels it uses also affect economic development by determining access to and use of essential communal, leisure, and business-support utilities. Only 29 percent of the companies analyzed have explored the economic impacts on the community of their products and services to any extent at all. Of these, only one had done so to a great or very great extent.

Just 11 percent of the reports had an output indicator of the economic impact for product and service distribution, and only two measured outcomes in terms of community perceptions of economic impact.

To What Extent Does the Report Indicate the Company has Explored the Economic Impacts on Community of its Products and Services?



The U.K. financial services company Co-operative Bank used an output indicator to denote equal opportunities for disabled customers both in response to new legislation and as part of its core business strategy. By comparison, Siemens AG in its Corporate Citizenship Report 2001 provided a breakdown of sales by region (the GRI-EC2 indicator) in billions of euros, but failed to go on to translate what the economic effect of this financial impact actually was. Just 5 percent of the sample engaged with the community to determine any outcomes.

Reports that included GRI indicators on product and service development and delivery were as follows:

Good Practice

“The bank’s commitment to “remote” banking via the telephone and internet removes the physical barriers that may make it difficult for some disabled customers to access services through bank branches... As required by the DDA (Disability Discrimination Act), the bank offers customers the opportunity to receive any literature produced by the bank... in large print, Braille or on audio tape. Fifty customers currently make use of this service.”

Source: The Partnership Report 2001, The Co-operative Bank, p48

- *EC1: monetary amounts received and receivable by the company from customers for the sales of its products and services.* Twenty percent of reports included this indicator.
- *EC2: geographical breakdown of key markets by sales.* Thirteen percent of reports included this indicator.
- *EC3: market share of products or product lines/ranges/services in key markets.* Just one of the reports, from Renault, included this indicator in its report.
- *EC8: interest on debt and common share dividend payments.* (Any arrears in preference dividends should be stated.) Only 9 percent of reports included this indicator.

- *EC9: return on average capital employed.* Just 11 percent of reports included this indicator.
- *EC12: description of the organization’s indirect economic impacts.* (Indirect impacts tend to be highly specific to sectors or individual organizations.) Just 22 percent of reports included this indicator.
- *EC13: customer perception of how far relationship with reporting organization brings economic benefit.* Only 17 percent of reports included this indicator.

2.2.5 Sourcing and Procurement

For large multinational enterprises, the indirect economic impact of their activities from money spent on purchasing and outsourcing of goods and labor can be considerable.

Good Practice

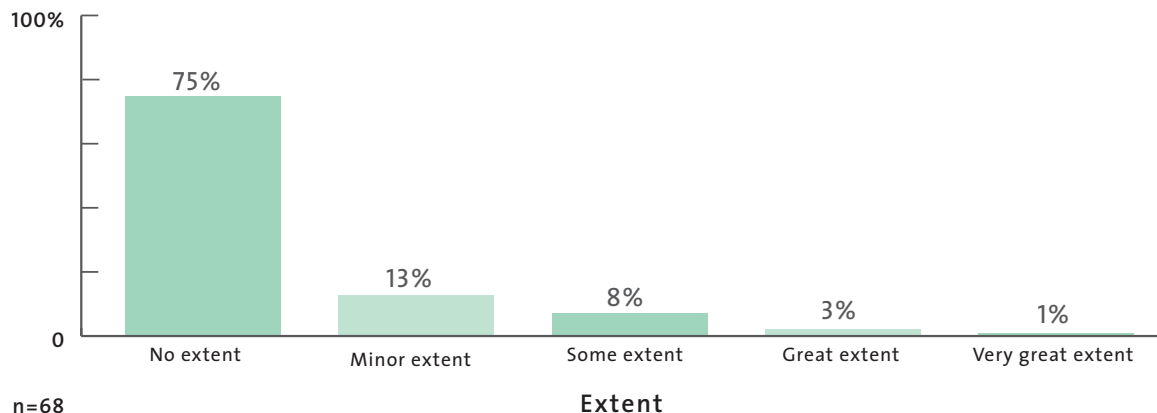
“As well as providing benefits to the national economy, BAA is keen that people and business in the local communities benefit from each of its airports. Even near Heathrow there are areas of relative disadvantage, where skills and educational attainment levels preclude local people from local opportunities, where businesses and town centres struggle, and where the urban environment detracts from the quality of life. To maximise the benefits of the airport and counter these effects, Heathrow has joined forces with the local boroughs

and other-related businesses to create the Heathrow Airport Alliance, which seeks to promote sustainable regeneration by enhancing the area’s social, economic and environmental aspects”... “Direct on-airport employment is currently 68,000 ...18 Local Authorities (are) close to the airport of which 1% or more of on-airport workers are resident... The value of BAA Heathrow procurement to the region (is) £183.1million.”

Source: BAA, Annual report 2000/01, p6-7

Exactly one-quarter of the reports explored the economic impacts on the community from which the company was sourcing, but of this number only three did so to a great or very great extent. Also, the three of these had an output indicator for sourcing. For example, BAA referenced investing in U.K. transport (and retail).

To What Extent Does the Report Indicate the Company has Explored the Economic Impacts on Community of its Sourcing and Procurement?



Just 12 percent of the reports included details of monetary payments and payables to suppliers for all goods, materials, and services purchased, a GRI indicator (EC4). A meager two reports detailed the percentage of purchasing spent per supplier and main invoicing company, another GRI indicator (EC5). None of the reports included information on the percentage of contracts paid in accordance with agreed terms, excluding agreed penalty payments, again a GRI indicator (EC6). In only 11 percent of the reports were there details of supplier perceptions of the value of a relationship with the reporting organization in economic terms, yet another GRI indicator (EC14).

Just three of the reports indicated that the company had measured or audited community perceptions of economic impact when it came to sourcing. Finally, only three of the reports indicated that the quality of stakeholder engagement in this respect was either good or very good.

Good Practice

“VanCity Enterprises Ltd (Enterprises) was established by VanCity Credit Union in 1989. It is a wholly owned subsidiary that undertakes real estate developments and investments in residential and commercial projects to achieve its social and business objectives... To carry out its mandate, VanCity provided Enterprises with a capital base of \$10 million in 1989...In 1999, Enterprises completed 160 housing units of which 30 (19%) were social housing units. As a rough comparison, a total of 464 social housing were completed by all developers throughout the Lower Mainland in 1999... Enterprises seeks a reasonable return on its investments in projects, accepting a lower rate of return on non-market projects than market ones.”

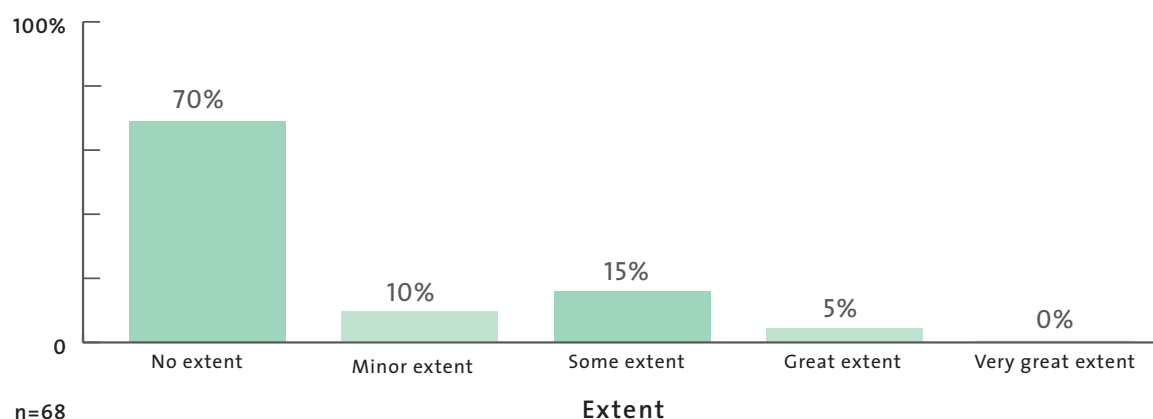
Source: VanCity, Social Report 1998/99, p55-56

2.2.6 Financial Investments and Fiscal Contributions

The ways in which companies contribute to economic development through financial investments may take several forms, such as equity in community development venture capital organizations or doing business with community development initiatives such as credit unions. Fiscal contributions take the form of taxes paid and subsidies received by business to or from government. This research sought to determine if corporate social and sustainability reports commented on the companies’ access to capital and markets where it invests, and on what basis. We found that only 30 percent of the reports indicated that companies had investigated the economic impacts of their investments on their communities. Five percent did so to a great or very great extent.

Only one outcome indicator for investments was observed. This was from VanCity in Canada, in relation to real estate, residential and commercial investments. (Solstice Consulting assured VanCity’s report using the AA1000S standard.)

To What Extent Does the Report Indicate the Company has Explored the Economic Impacts on Community of its Financial Investments?



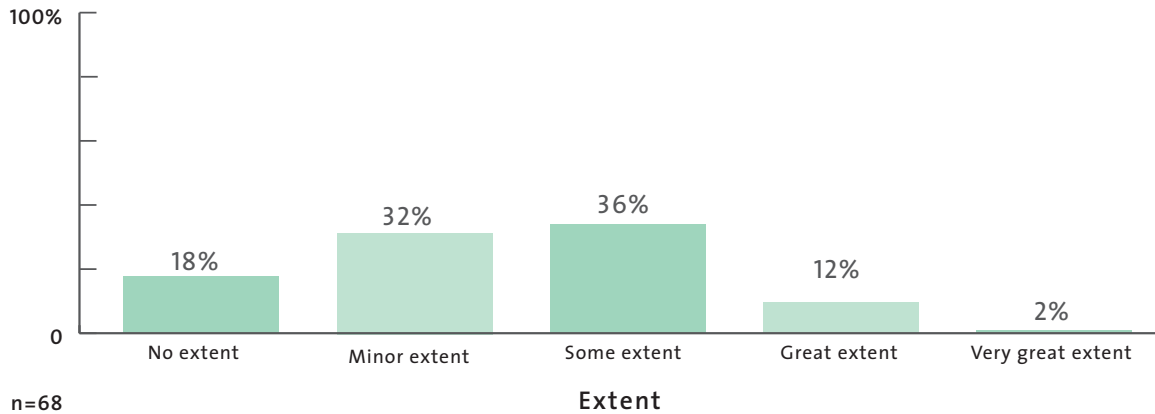
Reports that included the GRI indicators on investment were as follows:

- **EC10: total taxes paid broken down by geographic region.** Only two reports included this indicator.
- **EC11: subsidies received broken down by geographic region.** Eleven percent of reports used this indicator.
- **EC16: dollars of noncore business infrastructure development.** Nineteen percent of reports used this indicator.

2.2.7 Philanthropy and Community Investments

We investigated whether the social and sustainability reports addressed corporate giving, volunteerism, or other community-involvement initiatives, which help to stimulate wealth and job creation in communities.

To What Extent Does the Report Indicate the Company has Explored the Economic Impacts on Community of its Philanthropy and Community Investments?



Eighty-two percent of the reports that we analyzed commented on charitable donations and global giving programs. Fourteen percent did so to a great or very great extent. However, some 40 percent of the reports indicated the company had not explored the economic impact on the community before it started to give. Similarly, 40 percent did not have an output indicator of the economic impact; only 16 percent measured or audited community perceptions of economic impact in terms of social investment through outcome indicators. (The U.S. technology company IBM described its social investment strategy, for example. See the box on IBM.) Only 5 percent of those in the sample had a positive rating for stakeholder engagement.

Good Practice

"IBM's global contributions program and community relations activities are funded both by the IBM Corporation and the IBM International Foundation. In the aggregate for 2000, IBM provided a total of \$126.1 million, 70 percent of which was focused on education and 69 percent of which was in technology and technical services...(For instance, as part of the "KidSmart Early Learning Program) IBM has collaborated with local United Way organizations to bring thousands of Young Explorer workstations to nonprofit daycare centers and preschools in over 200 cities across the U.S. that serve more than 500,000 pre-kindergarten children. The vast

majority of these children come from low-income families with minimal access to technology. The program is now expanding internationally to over 30 countries including Peru, Thailand, and South Africa. An evaluation by the Bank Street College of Education found that 94 percent of teachers who participated in KidSmart became significantly more comfortable using technology in their classrooms. Teachers also reported they believe that 99 percent of the children in their classrooms are more comfortable using computers than they were before."

Source: IBM, *A Blueprint: IBM Corporate Citizenship 2001*, p23, 31

2.3 Why are Companies Interested in their Economic Impacts? - Insights from Business Practices

In this section of the report, we take a detailed look at why leading companies are interested in measuring, managing, and reporting their economic impact. (Refer to methodology in [Appendix 1](#) for details of the workshops and interviews conducted for this research.)

Overall, the rationales for corporations' interest in their economic impact can be grouped under the following three broad headings:

- 1 *Economic choices lead to social and environmental outcomes.* Leading companies are aware that they are held to high standards for social and environmental outcomes. They also know that the economic effects of their operations influence social and environmental outcomes. Being able to measure and manage their economic impacts helps them understand and better manage their environmental and social impacts.
- 2 *Measuring and reporting economic impact are important business tools in managing stakeholder relations in different contexts.* The corporation's economic impact on its many stakeholders is complex and varies with geography, business unit, and product. Being able to measure and report on economic impact can help the company to manage its stakeholder relations. It can help the company win a license to operate, as well as improve regulatory relations. It can also help the company to understand why particular stakeholders are frustrated by its actions, and how to respond.
- 3 *Reporting is an internal driver of business change.* There is some truth to the adage that "what gets measured gets managed." Developing a reporting system that measures economic impact meaningfully, and reporting on it regularly, can help to drive change through the business.

The following paragraphs expand on these findings, providing nuance and detail from the interviews and workshops we conducted.

2.3.1 Economic Choices Lead to Social and Environmental Outcomes

Key Learning

- Increasingly for companies, economics are key to creating social and environmental change.
- The more established and embedded accountability is in companies, the more appropriate and responsible economics is as the critical path for desired social and environmental outcomes.
- For many companies – in particular, those at the beginning of the corporate responsibility learning curve – there tends to be an economic skills gap in dedicated sustainability business units.

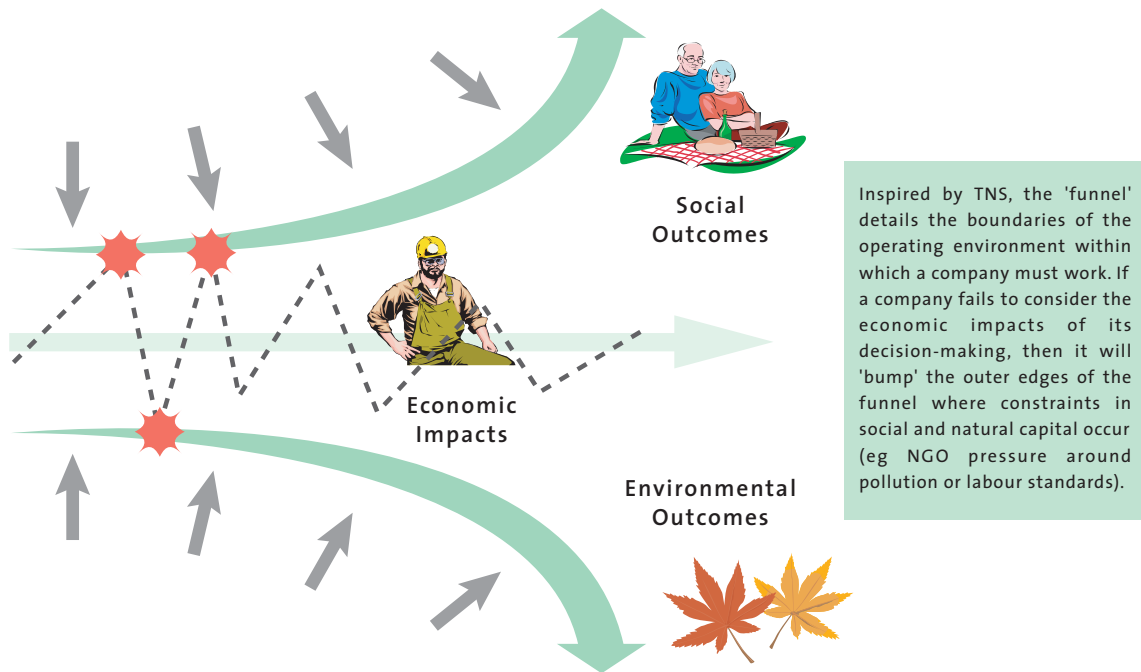
A new paradigm on the business case for corporate responsibility is emerging. Among several leadership companies there is a shift away from the traditional model of the triple bottom line of sustainability (that is, that a company should be economically, environmentally, and socially responsible) to a new model in which economic impacts are the enabler for realizing social and environmental outcomes. This differs from the model of the trickle-down effect espoused by laissez-faire economists because it is not based on Adam Smith's notion of the "invisible hand" of the free market inducing collective good through individual selfish action. Nor does it mean that companies solely exist to do societal good. Instead, according to this model, corporate economic choices contribute to social and environmental change.

Consequently, as depicted in the following figure, methods of accountability are determined by the choices a company makes in relation to economic impacts. Through an ongoing process of learning and innovation in their economic development policies, strategies, and systems, smart companies will be better able to make decisions that help them to navigate a way to deliver desired social and environmental outcomes.

“Discussion of broader economic impacts of Novozymes' business has increased the interest of top level management in sustainability issues, since it is an attempt to clarify the link between social outcomes and financial performance.”

(R J Netterstrom, Novozymes, Companies Workshop, London, January 2003)

Figure 4: Pathway of Accountability



Based on the case interviews, the most notable embodiment of this new paradigm is the Danish pharmaceuticals firm Novo Nordisk A/S when it comes to health economics and access to insulin drugs. This company has found strategic opportunities and dilemmas associated with the huge indirect and induced impacts of its products on poor and disadvantaged communities, both in the developed and developing world, such as the cost benefits of social security and worker productivity.

For many companies, however, beneficial social and economic outcomes remain a welcome by-product of commercial activities rather than a key determinant or deliverable. Thus, social and environmental aspects are being balanced or traded off against wider financial and economic considerations. This may be due to a “skills gap” in the economic expertise and experience in the corporate responsibility or sustainability business units responsible for formulating and delivering the business case and strategy in this field. Workshop discussions indicated that this tended to be true for companies at the beginning of the learning curve in corporate responsibility rather than for the more well-established practitioner teams at Nike, Novo Nordisk, SABMiller, and Shell, for instance.

“There is a real need to help change the attitude of corporations from looking at low-income communities as a problem to an opportunity.”

(J Gamboa, Green Living Institute, Advocacy Workshop, Washington DC, March 2003)

“British Waterways is not an agent for reducing deprivation but does know how it contributes to improving deprived areas. The question is 'how far can (rather than do) we go?'”

(G Meyer, British Waterways Companies Workshop, London, January 2003)

Furthermore, there appears to be confusion among many companies and standard-setting bodies alike about one key point: they fail to recognize that financial success does not equal economic success, and that economic choices are critical in realizing social and environmental outcomes. But even among those companies where this is *not* the case, few understand that their indirect and induced impacts may be greater than their direct impacts. Further, companies are reluctant to accept responsibility for the indirect and induced impacts because they are harder to measure and manage. Much of this is due to the fact that these impacts are on the outer boundaries of what the company can comfortably control.

2.3.2 Measuring and Reporting Economic Impact are Important Tools in Managing Stakeholder Relations

Key Learning

- A company’s economic impact on the communities it operates in is complex and needs to be analyzed in terms of a wide range of factors that define and shape the corporate-community relationship (company needs, stakeholder expectations, geography, sector).
- Companies are increasingly recognizing the need to adopt a formalized system to manage economic development, but for many it is in ad hoc style driven by a combination of values and pressure, especially the threat of regulation.
- For some companies, a systemized approach is fueled by a core business strategy to win their license to operate in the communities with which they work.

BAT: Community Investment in the Arts, Education, the Environment and Healthcare



British American Tobacco (BAT) is the world’s second-largest stock market-listed tobacco group with a global market share of 15 percent and a turnover of U.K. £25,694 million. Based on 2002 figures, it does business in 180 countries, and has eighty-four factories in 64 of these. BAT works with some 250,000 tobacco farmers worldwide and employs over 80,000 people. Core to BAT’s approach to corporate citizenship is an acknowledgment that tobacco products pose risks to health. For BAT, the key negative economic impact across its business functions involves the effect of its products and services. For instance, tobacco products have an economic cost of US\$140 billion a year in the U.S.A. alone, according to the surgeon-general (www.cdc.gov/tobacco).

The crux of the current discussion in wider society for the tobacco industry relates to the role of regulation. During early 2003, member states of the World Health Organization (WHO) finalized a ground-breaking public health treaty to control tobacco supply and consumption. They agreed on a final text



for a WHO Framework Convention on Tobacco Control (FCTC) governing tobacco taxation, smoking prevention and treatment, illicit trade, advertising, sponsorship and promotion, and product regulation. The text requires signatory parties to implement comprehensive tobacco control programs and strategies at the national, regional, and local levels. In its preamble, the text

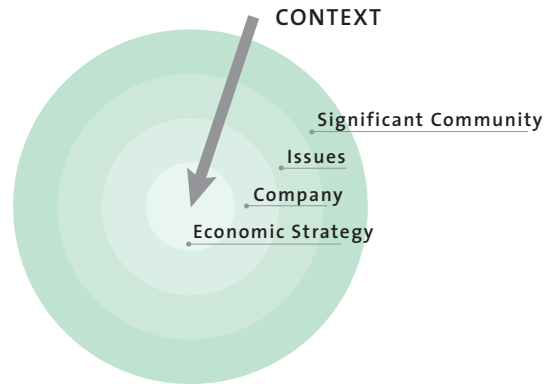
explicitly recognizes the need to protect public health, the unique nature of tobacco products, and the harm that companies that produce them cause. The key elements of the final text cover taxes, labeling, advertising, liability, and financing. The treaty reflects WHO and World Bank policies on a comprehensive plan to reduce global tobacco consumption. While there have been nearly twenty World Health Assembly resolutions to support tobacco control since 1970, the difference with this treaty is that these obligations will become legally binding for parties to the convention once it comes into force (www.who.int).

BAT has also been targeted by human rights campaign groups that are critical of its decision to continue to have a subsidiary operating in Burma under a nondemocratic regime with an alleged poor record on human rights abuses, regardless of the adverse health impacts of its products or the creation and maintenance of local labor.

As a key part of BAT’s public commitment to embed the principles of corporate responsibility into its business practices, it recently produced its first statement on social and sustainability performance. The *Social Report 2001-02* (<http://www.bat.com>) uses guidance from both the AA1000S and the GRI frameworks, with assurance by Bureau Veritas. Themes and activities highlighted in the report relate to changing some of the ways it addresses issues of concern: tackling underage smoking; committing to the principles of sustainable development, and working to world-class standards of environmental, occupational health, and safety performance; helping some of its 250,000 farmers through responsible tobacco leaf production; joining with NGOs and other partners to help conserve biodiversity and eliminate exploitative child

All the companies interviewed presently monitor and report on their economic balance of accounts to some extent and expressed personal interest in (as well as increasing stakeholder demands for) doing more measurement and reporting. The reasons behind this trend went beyond historical values and short-term reputational management; instead, reporting is becoming integral to forward-looking corporate strategy as part of maintaining and winning a license to operate with communities – as depicted in the following figure.¹³ With regard to metrics, the feedback from both company interviewees and workshop participants was that the GRI Economic Performance Indicators provided an extremely useful reference point at the corporate level.

Figure 5: Operating in a Complex World



Company policy and strategy on economic development - the inner most circle - cannot be considered in isolation. It should be thought about firstly in terms of its 'significant community' - the outer most circle; next in terms of wider business issues; and then finally in relation to company specific aspects for a certain geographical region, and over time.

labor; and contributing to the communities where it operates.

One element of its contribution to the economic development of poor and disadvantaged communities is philanthropy and community investment. BAT asserts that it has long supported local community charitable projects and initiatives. These vary from country to country, reflecting its recognition that each business environment and community is different, with its own needs and aspirations. Community and charitable donations by BAT largely involve the environment, employment and education, arts and cultural activities, disaster relief and primary health care. Practical examples of these different contexts are the cases in Kenya (training and education), Pakistan (primary health care), the U.K. (the environment), and Venezuela (arts and culture).

In Kenya the emphasis is very much on training and employment to benefit the poor and disadvantaged. For example, *Jua Kali* is an informal group of tradesmen, mostly car mechanics and electricians, who travel urban areas offering goods and services to low-income groups. In 1998, BAT Kenya proposed an initiative to the government to promote small businesses. Company and government staff devised the first annual exhibitions in Kenya's eight regions where *Jua Kali* tradesmen learn marketing skills and quality control. The initiative has helped change attitudes toward *Jua Kali*, which is now recognized as a vibrant business sector of three million people, a quarter of the working population; It is estimated that the sector will account for 70 percent of new jobs in Kenya by 2020. While BAT Kenya remains the main donor, cofunders now include the Kenya Broadcasting Corporation, the National Security Fund, the Kenya Bureau of Standards and Kenya Industrial Estates. In Pakistan, millions of people lack basic medical care, sometimes resorting to unqualified advice. Pakistan Tobacco Company enables 1,600 people to be examined at no charge every month and to date has helped over 150,000 people. In the late 1980s the company became aware of the

depth of the problem when surveying living conditions in the areas around its factories at Jhelum and Akora Khattak and for workers in northern leaf growing areas. Consequently, it introduced three mobile dispensaries staffed by doctors and a pharmacist, offering free medical checks and free prescribed medicine over a 30km radius of the factories, and help during natural disasters.

By comparison, in the U.K., the focus is on the environment, tertiary education, and the arts. For example, BAT has donated U.K.£100,000 to the Global Trees Campaign run by Fauna & Flora International, which supports the conservation of eight hundred endangered tree species throughout the world. In 2001, BAT was ranked seventeenth among the FTSE100 companies in the corporate giving list compiled by the U.K. newspaper *The Guardian* with the charity consultancy, Directory of Social Change. This list was based on giving during 2000, when BAT payments for charitable purposes were U.K.£11 million, U.K.£3.5 million of which was paid in the U.K. During 2001, BAT payments for charitable purposes rose to U.K.£15.9 million, U.K.£3.9 million of which was paid in the U.K.

Finally, in Venezuela the Bigott Foundation, established in 1963 by the BAT subsidiary Cigarrera Bigott, has become a center of excellence in promoting and preserving the Venezuelan culture and the country's largest private-sector foundation of its type. Its workshops on traditional music and dance in Caracas attract hundreds of entrants each year from poor and disadvantaged communities, some of whom join the many professional performance groups that owe their success in part to the foundation. The foundation helps make Venezuelan culture more available through books, magazines, radio, and TV. It also works with government organizations and has devoted considerable resources to teacher training to spread knowledge of Venezuelan folklore, and it helps export Venezuelan culture through overseas performances.

Regional Diversity of Business Case in Emerging Markets

CSR Europe and AccountAbility (2002) and to a greater extent SustainAbility, IFC and Ethos (2001) have both explored the business case for corporate responsibility in emerging markets. In the latter study, the strongest business case links by region has been mapped out (apart from eco-efficiency) as summarized below:

- Central & Eastern Europe:
 - environmental process improvement = revenue growth & market access
- East Asia & the Pacific:
 - governance & management = cost savings & productivity
- Latin America & the Caribbean:
 - human resource management = cost savings & productivity
- South Asia:
 - local economic growth = revenue growth & market access
 - community development = brand value & reputation
- Sub-Saharan Africa:
 - human resource management = cost savings & productivity.

In both reports, it was noted that economic development was the principal area of interest for communities in respect of multinationals operating in South Asia.

However, there was a sense among some case interviewees, such as BAT, SABMiller, and Shell, that a generic set of reporting indicators although helpful was not always sufficient because communities and their are not a homogenous group (they may include both the poor and the affluent). Shell, for instance, referred to its different experiences in Canada, on the Athabasca Oil Sands Project, and the Philippines, with the Malampaya Gas Project, to highlight the point that community economic

“Utilities, such as National Grid Transco, often provide services that are essential to the economies of the country or the regions in which they operate. The biggest impact that we can have on economic development is to provide high quality, dependable services which, in turn, provide stable infrastructure enabling other businesses to invest and grow in the region.”

(I Gearing, National Grid Transco, Companies Workshop, London, January 2003)

Commercial Organizations in Islamic Communities

In examining the role of commercial organizations in an Islamic society, Cone (2003) concludes that Muslims see business activity as being embedded in the social world and, as a result, have expectations that business activities will reflect the value orientations of the surrounding social environment. For example, by acting as a low-cost depository for personal savings for hadj pilgrimage to Mecca each year the Bank Muamalat – an Islamic Bank in Indonesia – is a guarantor and facilitator of cultural continuity in Muslim life in Indonesian society. [Source: *Journal of Corporate Citizenship*, No. 9, Spring 2003].

But how should a Western company work in Islamic communities? In 2002, Fannie Mae announced it would invest US\$10m in Islamic mortgages that recognize the Quran’s restrictions against interest payments – the *riba*. U.S.-based Fannie Mae is the largest non-bank financial services company in the world (www.fanne-mae.com). It operates pursuant to a federal charter and is the nation’s largest source of financing for home mortgages. Its participation in the Islamic home financing market is part of the company’s “American Dream Commitment” to provide US\$2 trillion in affordable mortgage financing to increase homeownership nationwide among minorities and low- and moderate-income families whose homeownership rates lag the general population by the end of the decade.

development is specific to each company when it comes to business group, region, legislation, economy, politics, and culture.

Companies indicated that risks and opportunities across the six business activities we analyzed differed according to context, and this in turn informed how they approach poor and disadvantaged communities. For instance, although all manage and report each activity, they identified major challenges and opportunities as follows: Novo Nordisk A/S: product and service development, use, and delivery; SABMiller:

Nike: A Living Wage for Factory Workers



Nike is one of the world's leading brands in the textile and clothing sector. The company's main activities consist of designing, marketing, and selling sports goods. Nike is publicly quoted on the New York Stock Exchange, and has a global representation with a turnover of €9.1 billion, employing twenty-five thousand staff.

Nike is a committed advocate of corporate citizenship, as demonstrated by its production of its first stand-alone corporate responsibility report in 2001, which provided information on the company's social and environmental activities and performance. More extensive data on these issues is located on the "nikebiz.com" Web site. Supply chain management, legislation, and codes of conduct are the key business issues for Nike. Important company-specific issues include human rights and labor conditions, environmental protection, and a desire to develop public recognition that Nike is a good corporate citizen with an underlying principle of transparency. But a key determinant of Nike's future commitment to reporting – and possibly also that of other companies – will be the outcome of the case brought by Marc Kasky that is now under review by the U.S. Supreme Court. A decision in the case is pending. The essential issue here is that Nike allegedly misled consumers by profiling itself as socially responsible in its advertising. Discussions of the lawsuit centered on transparency and accountability versus the "manipulation of stakeholder perceptions."

In terms of economic development for poor and disadvantaged communities, the big challenge for Nike is trying to ensure a living wage for all subcontracted factory workers across its entire supply chain, while at the same time remaining competitive in its industry. According to Nike, when a country starts to industrialize, a string of events occurs in the manufacturing sector that leads to economic development. This sequence of events usually starts with light manufacturing (a flannel shirt factory and then a T-shirt factory and finally a jeans factory), leading to moderately technical, light manufacturing (outerwear and performance sportswear, sports shoes), on to light technical consumer products manufacturing (radios, calculators, wristwatches) and finally to technical durables (automobiles, computers). Sometimes these occur in tandem (as, for example, in Korea), sometimes in sequence (Taiwan), and

sometimes the country graduates without the final stages and heads directly into the postindustrial service economy (Singapore, Hong Kong). Nike has been and continues to be a driver of the first two steps in the countries where its products are manufactured over the past thirty years. At present, there are about 750,000 jobs directly engaged in manufacturing its products; Korea alone has exported well over five hundred million pairs of Nike shoes; and after just three years manufacturing there, Nike accounts for 7 percent of all of Vietnam's export earnings. These facts help to demonstrate Nike's role in promoting economic development by working with companies in Asia and around the world.

In 1998, CEO Philip H. Knight announced a series of new initiatives intended to further improve factory working conditions and provide increased opportunities for people who manufacture Nike products. Since this time, Nike calculates that it has made substantial progress on each of these initiatives on living wages, worker education programs, and microloans. Nike values the people who work in its factories and aims to compensate them competitively. Average Nike wages are consistently higher than the minimum wage requirements set by foreign governments. In addition, Nike factory partners make wage adjustments based on extraordinary events, such as the recent economic crisis in Indonesia when footwear factories raised wages by 15 percent. It is important to note, however, that wages are just one element of a factory employee's compensation. The company also has programs in place to provide supplemental education and other advancement opportunities for the hundreds of thousands of people who manufacture Nike products. To date, roughly one-quarter of its footwear factory base, or twelve factories in four countries (China, Thailand, Vietnam, and Indonesia), have begun a supplemental worker educational program. Since 2002, Nike has only ordered from footwear factories that offer some form of after-hours education to qualified workers. It is also on target to provide five thousand microloans to women in and around its factories in Vietnam, Indonesia, Thailand, and Pakistan in order to help them create small businesses. Despite this progress, Nike recognizes that changing public perceptions around this challenging issue will not be easy or quick.

sourcing and procurement; Shell International: facilities siting and management; Sydney Water: financial investment and fiscal contributions; Ford Motor Company: facilities siting and management.

For each business activity, external and internal factors further shape a company’s approach. A case in point: dilemmas and challenges in site selection. For Novo Nordisk A/S, this is less of a priority because the company does not usually invest in new sites but instead is expanding operations in existing areas; thus, for this company, availability of a skilled workforce is of prime importance. However, it has retrospectively explored and reported on site impacts in Kalenburg (Denmark) and Cloughton (U.S.A.) during 1999-2000 in terms of local taxes paid and improving the skills of the local

“The concept of trying to make a difference in the housing market is a day-to-day focus at Fannie Mae. Partnership offices have played a critical role in this process. It is essential we have people on the ground interfacing with the community. Often there are unique factors that prevent transactions from happening in communities. Identifying these factors is critical to successful implementation, especially with low-income individuals.”

(D Dorkin, Fannie Mae, Advocacy Group Workshop, Washington DC, March 2003)

Novo Nordisk A/S: The Economics of Health for Diabetes Care

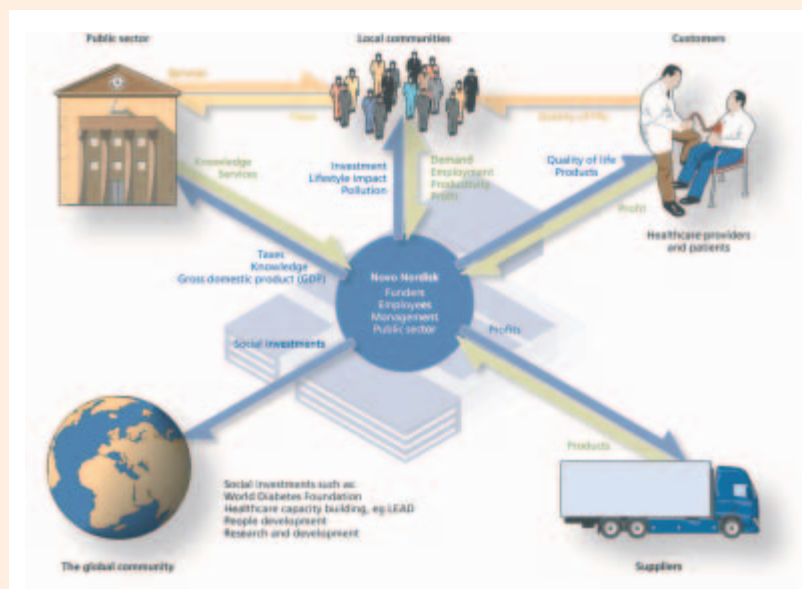


Novo Nordisk, a focused health care company with the broadest diabetes product portfolio in the industry, is a world leader in diabetes care. In addition, Novo Nordisk has a leading position in haemostasis management, growth disorders, and hormone replacement therapy. Headquartered in Denmark and represented in sixty-eight countries on five continents, it employs more than sixteen thousand people worldwide with key production sites in Denmark, U.S.A., France, Japan, China, and South Africa. In 2001, Novo Nordisk’s net turnover was approximately €2.4 billion. Novo Nordisk’s ownership is split between A shares and B shares. The A shares of Novo Nordisk are held by Novo A/S, the holding company of the Novo Group, which is wholly owned by the Novo Nordisk Foundation and was established to manage the foundation’s funds and to invest actively in other companies. What makes Novo A/S different from other holding companies and venture capital firms is its expertise in commercializing science, taking long-term responsibility, and investing solely in sustainable solutions. The B shares are quoted on the Copenhagen and London Stock Exchanges, and on the New York Stock Exchange.

The companies in the Novo Group act as a “family of companies,” managed independently but sharing common values. Novo A/S has developed a charter describing the core values, commitments, and management principles that companies in the Novo Group should maintain. An important part of this is “the Novo Way of Management,” to which the

boards of both Novo A/S and Novozymes A/S are expected to commit themselves. Based on the Novo Way of Management, the Novo Group is committed to the concept of the triple bottom line. This means that a company should be not only financially viable but also environmentally and socially responsible. On each of these three bottom lines, the Novo Group strives to continuously improve performance and report annually on this work.

In its efforts to further the economic bottom line, a set of indicators has been developed in line with GRI’s recommendations and AA1000S. This is supported by a preliminary analysis of the



workforce. (It should be recognized too that if the company were to withdraw, the neighboring communities' skills base would still have increased despite the potential resulting loss of employment.)

By comparison, Sydney Water's choice of site is often driven by politics and regulations in order to realize a "public good"; this is a quasi-governmental enterprise whose executive board is a mix of private-sector representatives and government ministers.

Site selection for Nike involves assessing the economic needs of a country to understand compliance-related issues, and particularly the risks associated with the positive correlation between high levels of poverty and corruption. Measuring and reporting on economic development is a component of the retailer's commitment to progress to become a "third generation" company¹⁴ whose corporate strategy includes supporting public policy objectives to alleviate poverty through commercial activities.

For both Shell International and the Ford Motor Company, key economic decisions involve where and how to open or close facilities based on entry and exit strategies from neighboring communities.

socioeconomic impacts of the company's activities worldwide. Novo Nordisk has set out a series of challenges for itself in the statement *Reporting on the Triple Bottom Line 2001: Dealing with Dilemmas* (<http://www.novonordisk/sustainability>). One of the key dilemmas relates to products and services in terms of the economics of health: "How do we improve access to health care and make our products affordable, and yet continue to operate a profitable business?" The report outlines how the economic productivity of a nation and the health of its workforce are largely dependent on the investment made in the health of its people. Findings by a study for the World Health Organization (WHO) in 2001 concluded that by 2015 to 2020, increased health investments of US\$66 billion could generate at least US\$360 billion annually and save approximately eight million lives per year. According to the WHO, diabetes is one of the four major killers in the world, with the number of adults with diabetes rising to 300 million by 2035 from 135 million in 1995, of which 80 percent of individuals are from the developing world. Those seeking to head off this pandemic face the dilemma that care optimization is known but does not always happen because of a combination of lack of information, education, funding, infrastructure, and medicine.

Novo Nordisk has long used health economics as a decision-making tool for focusing its own efforts and as a basis for informing decision makers in government about the economic consequences of their choices. Its initiatives to improve people's access to health care form part of the company's strategy. Alleviating inequality and poverty is a key factor in the efforts to achieve more sustainable development, and hence this is an issue that Novo Nordisk sees a need to address proactively. WHO has identified four major focus areas for improving access to health care in developing countries: development of national disease strategies; building of national health care capacity; provision at best possible pricing; and additional funding. In the context of Novo Nordisk's key business area, diabetes care, it has integrated WHO's four priorities into its own strategy for

improving access to diabetes care in developing countries and has identified activities to implement each of them:

- *The National Diabetes Strategies project* aims to create collaborations with health authorities in setting up national strategies for how to deal with diabetes.
- The DAWN study (*Diabetes Attitudes, Wishes, and Needs*) uncovers the behavioral, social, and psychological aspects of diabetes in thirteen countries. It is the largest global survey ever conducted and is intended to create the foundation for a more fact-based dialogue among various diabetes stakeholders. This study has provided new and important knowledge about patients and thus is helping to build national diabetes care capacities.
- The *World Partner Program* is a survey conducted in six developing countries with a view to benchmarking good practices for improving access to diabetes care, as well as identifying areas for improvement. The objective is to use the findings for developing "sustainable diabetes models" that benefit people with diabetes at very low-income levels, while still enabling a provider like Novo Nordisk to realize appropriate profits.
- In terms of *best possible pricing*, Novo Nordisk's evaluation has led to a new pricing policy. According to this policy insulin will be offered to public health systems in the poorest countries at prices not to exceed 20 percent of the average price in North America, Europe, and Japan.
- *The World Diabetes Foundation* is Novo Nordisk's contribution to providing additional funding to diabetes care in developing countries. It is an independent foundation chaired by a board of directors representing diabetes experts, patient organizations, health NGOs, and representatives from Novo Nordisk. The aim of the foundation is to support access to diabetes care in terms of education, awareness, and treatment in developing countries.

Novo Nordisk's approach is based on partnership programs with governments, international NGOs, and local diabetes associations.

2.3.3 Reporting is an Internal Driver of Business Change

Key Learning

- Social or sustainability reporting on economic performance is increasingly recognized as a catalyst for change both internally (in terms of informing management learning and decision making) and externally (to influence stakeholder perceptions).
- Among the few companies for which reporting is strongly linked with internal management structures, its impacts can be significant.
- Public trust in companies is falling, *especially* in regard to business contributions to economic development in poor and disadvantaged communities. Assurance is increasingly important, and companies are recognizing that a multistakeholder approach involving labor organizations and other advocacy groups as well as consultants will help bridge the credibility gap.

SABMiller: Supplier Diversity and Black Empowerment



SABMiller is the world's second largest brewer by volume of beer and one of the world's largest bottlers of soft drinks, with leading market positions in Central and Eastern Europe, North and Central America, Asia, Africa, and South Africa. Founded in South Africa and headquartered in London, SABMiller has a primary listing on the London Stock Exchange and secondary listing on the Johannesburg Stock Exchange. In 2002, the company had a turnover of US\$4,364 million and employs 33,250 staff directly worldwide.

The company is committed to achieving sustained commercial success, principally in beer and other beverages, but also with strategic investments in hotels and gaming. It aims to achieve this by meeting the aspirations of its customers through quality products and services, by sharing fairly among all stakeholders the wealth and opportunities generated, and by seeking business partners with similar

values. SABMiller works to fulfill its goals of business growth and maximized long-term shareholder value while trying to behave in a socially responsible and progressive manner. This approach is informed by the principles of the GRI and AA1000S, with disclosure and dialogue through its Corporate Accountability Report 2002 (<http://www.sabplc.com>). SABMiller aims to contribute to the development of local economies in the twenty-five countries in which it operates. As a pioneer in the application of value-added accounting for accountability reporting, SABMiller continues to use the "cash value-added statement" to reflect the creation and distribution of wealth from a stakeholder perspective.

SABMiller spent US\$1.6 billion during 2002 on bought-in goods and services for suppliers. Although procurement managers are focused on securing cost-effective sourcing that guarantees consistent quality and services, this must be done in keeping with the company's Guiding Principles by paying attention to increasing diversity and enhancing the local economy. SABMiller Group companies around the world offer practical help and support to new entrepreneurs wishing to set up their own businesses. In South Africa, this effort to develop an entrepreneurial culture has special focus on "commercial equity," using the purchasing power of the supply chain to foster economic empowerment among blacks living in poor and disadvantaged communities.

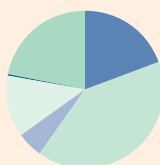
For example, in 2002, Beer SA spent US\$56 million with business partners from disadvantaged groups, minorities, and local firms, an increase of nearly 20 percent over the previous year. More than five thousand commercial equity companies (CEC) are now registered on the company's vendor list.

At Southern Sun's casino operation, a formal empowerment policy is in place. Commercial equity is one of the strategic operational performance drivers and KPIs are included in individual incentive bonus calculations. All suppliers are rated on their "empowerment" component and a target of 35 percent has been set; this was exceeded by more than 4 percent during 2002. Similarly, Southern Sun's hotel division achieved a commercial equity percentage of 46 percent on operating expenditure and 31 percent on capital spending during 2002. SABMiller Group considers both to be an underestimate of the true impact, because not all expenditure is currently assessed as spending through government agencies and municipal services.

Distribution of cash value added

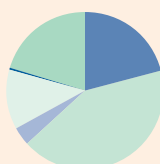
2002

■ Employees	19.3%
■ State treasuries	40.5%
■ Lender	5.3%
■ Shareholders	12.7%
■ Corporate social investment	0.3%
■ Cash retained for future growth	21.9%



2001

■ Employees	20.9%
■ State treasuries	42.3%
■ Lender	3.8%
■ Shareholders	12.3%
■ Corporate social investment	0.4%
■ Cash retained for future growth	20.3%



The very process of reporting can act as a stimulus for internal discussion that results in a change in organizational culture and outcomes. For companies interviewed such as BAT, Novo Nordisk A/S, and SABMiller, all users of both the GRI and AA1000S, assurance increases the effectiveness of reporting by enhancing management systems by fostering learning, skills development, and better decision making.

For example, in reporting on the triple bottom line in 2001, Novo Nordisk A/S sets out its big challenges for public discussion. One of its key dilemmas relates to diabetes medicines and the economics of health in disadvantaged communities around the world: "How do we improve access to health care and make our products affordable, and yet continue to operate a profitable business?" Novo Nordisk A/S outlines its plans with corresponding actions to address each dilemma.

As illustrated in the preceding figure, a company predominantly reports and communicates social and sustainability issues with the objective of changing stakeholder perceptions of its activities. Through public corporate reporting (the innermost circle), stakeholders can observe changes in a company's decisions, activities, and performance and ultimately its social and sustainability impacts. However, although stakeholder perceptions can be measured by surveys and workshops, it is much more difficult to extrapolate this perception and measure a change in stakeholder behavior – the key component which shapes and determines a company's decisions, actions, and ultimately, performance (the outermost circle).

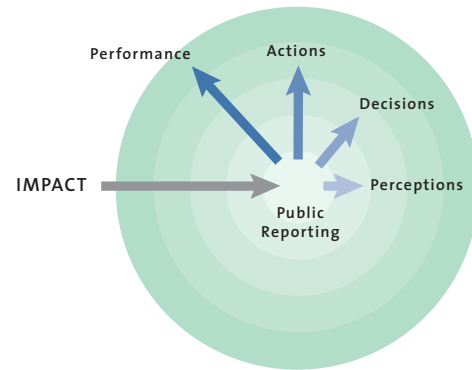
To establish the connection between stakeholder engagement, reporting, management, and governance practices materiality must be considered. This means determining the relevant issues and then framing the boundaries of corporate accountability to reflect its most significant economic impacts on disadvantaged communities.

A recent global public opinion survey for the World Economic Forum found that the business community, and large businesses in particular, are among the least trusted institutions in society today. The survey, like many others preceding it, highlights the falling levels of trust in many institutions to operate in society's best interests.¹³

There is little doubt that a lack of trust leads to weaker business relationships, higher transaction costs and risks, higher interest rates, and lower profit margins. But what is the role of labor organizations and other advocacy groups in the assurance process? This was a recurring question posed by participants in the research advocacy workshops.

According to AccountAbility's first annual *State of Sustainability Assurance* report (2003),¹⁶ the credibility of sustainability reports is key to their effectiveness in helping to create robust relationships between businesses and their stakeholders. In the future, companies will use multistakeholder teams that include NGOs, labor organizations, academics, and opinion leaders, as well as traditional auditors and consultants. This is especially important in the context of corporate involvement in economic development. In this area, cynicism is especially high and trust especially low among civil society, with the antiglobalization movement forming in part in response to this.

Figure 6: Impacts of Reporting



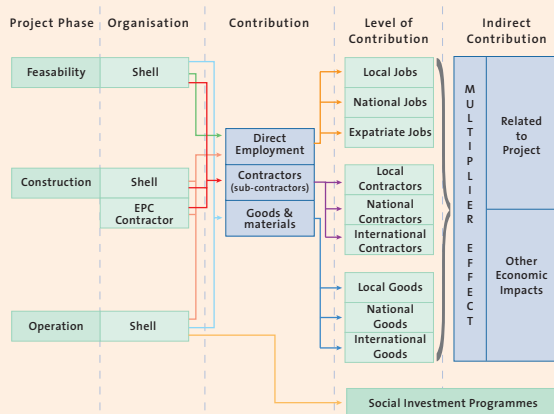
Source: CSR Europe & AccountAbility, 2003

Shell: Promoting Livelihoods Through Facilities Construction



Shell International is a global energy and petrochemicals company. Its full-year adjusted earnings were US\$11,984 million in 2001. It operates in over 135 countries and employs ninety-one thousand people. The company's core values of honesty, respect, and integrity are embedded in its Statement of General Business Principles, which has existed since 1976. In the mid-1990s the company was affected by external pressure over Nigeria and Brent Spar; this led to a far-reaching review of its activities and a recognition that the world had moved from a "trust me" to a "tell me" way of being. As part of its response, Shell produced its first sustainability report, one of the first such reports ever issued by business. Shell has now been producing the sustainability report called "People, Planet, and Profits" since 1998. Shell's approach has been influenced by a combination of values, pressure, and strategy. Today, Shell's commitment to sustainable development is a key component of its strategic direction, and reporting is an integral part of its activities.

In terms of economic development for poor and disadvantaged communities through its program of strategic social investment, Shell understands that many of its biggest impacts occur through its decisions on facilities siting and management – during both the construction and operational phases (as shown in the figure below). Two examples with different contexts are the Malampaya Gas Project in the Philippines and the Athabasca Oil Sands Project in Canada.



In the Philippines, Shell Philippines Exploration (SPEX) successfully used the Shell Filipinas Foundation to maximize the training and employment opportunities for local community members interested in working during the construction phase of the US\$2.5 billion Malampaya project. Specifically for both the Subic and Batangas components of the project, a Joblink center was established, where all unemployed local residents were able to register. Those with relevant skills were placed directly with contractors; those without skills were provided relevant training before placement with contractors. As a consequence the project (through its construction contractors) hired close to three

thousand workers from local communities and over 75 percent of the workers came from the five barangays of Tabangao, Ambulong, Libjo, San Isideo, and Malitam affected by the project. These workers completed the project on schedule and within budget and accumulated more than eleven million man-hours without lost-time incident.

Shell Canada (through the Albian Sands Operating Company) is presently a partner in a \$5 billion oil sands project in Northern Alberta. As part of its overall commitment to sustainable development, the project has undertaken a number of initiatives to promote local economic development through the creation of 6,500 construction jobs and one thousand permanent jobs, in particular in relation to the community of Fort McKay, a predominantly indigenous community located 4km from the project site (and thus the most directly affected community). These initiatives include the following:

- Signing the Fort McKay/Shell/Albian Business Alliance Agreement. The intent of this agreement was to work collaboratively to identify both short-term (construction-related) and long-term (operations-related) business opportunities – matched to current capacity – as well as the resources (particularly staff expertise) to build future capacity in preparation for longer-term opportunities
- Identifying at the beginning of the project local supply opportunities that were not on the critical path for the project's construction, but were of a type that would be required in the operational as well as in the construction phases (e.g., camp catering and earth removal), so that the investment by Shell and by the local businesses could be sustainable in the long term
- Providing assistance to local Fort McKay (and other businesses) in overcoming barriers that might prevent them doing business with the project; in particular providing support and training in access to capital (through bank financing and through government matching funds), organizational development (structure, human resources, training), cost analysis/equipment and materials, safety and risk management systems, and contracting administration processes (invoicing, bid preparation)
- For the key local businesses servicing the project, taking steps to adjust the scheduling of work so that the businesses have a flow of work across the year and do not have to lay people off in between construction phases; at the regional level, providing work for local suppliers in lots suited to the size and capacity of the local businesses
- Adoption of an "open-book" system with the Fort McKay community to build capacity and ensure fair profit

Emerging lessons and key challenges for Shell in the future involve capacity building to: (1) help communities overcome barriers to initial participation; and (2) work with the company on an agreed exit strategy as part of a long-term economic development plan.

3 Implications for Public Policy

Several decades of learning through experimentation and calls to clarify how business can contribute to the economic development of poor and disadvantaged communities present policymakers with an opportunity to create corporate responsibility standards and practices that make a real difference. Working together with all key stakeholders, policymakers should build an enabling environment where the measurement, management, and reporting of economic impact become the productive tools for enhancing overall business performance.

To attain this end, effective policy must take into account the key considerations outlined in the following paragraphs.

3.1 Standards Need to Support Change as Well as Prescribe it

Economic responsibility, just like other aspects of corporate responsibility, has to make business sense driving both operational gains and broader strategic benefits associated with risk management and the exploitation of financially attractive opportunities.

As highlighted by Shell (see [Section 2.3.2](#)) and other companies such as Nike, the real challenge businesses face today is to be able to design processes to reveal risks and opportunities that internal and external stakeholders care about. These, in turn, offer business benefits.

Standards (in the innermost circle in the following figure) are of no real value unless they influence corporate choice and decision making through critical enabling processes or interventions. This in turn will inform actions, shape performance, and ultimately determine the desired social and environmental outcomes (the outermost circle).

Public policy can also play a crucial role in supporting convergence around initiatives that seek to create cost-effective and robust frameworks, guidelines, and standards. Policy must take account of international developments, such as the finding against Nike by the California Supreme Court. (This case is now before U.S. Supreme Court; arguments have been heard and a decision is pending as of this writing.) Also relevant is the emerging debate over business practices in the context of the Doha trade round on multilateral trade and investment rules.

Companies must be prepared to commit to learning and innovation, and understand that standards do not unnecessarily inhibit change, such as with the potential conflict between codes on human rights and employing the local

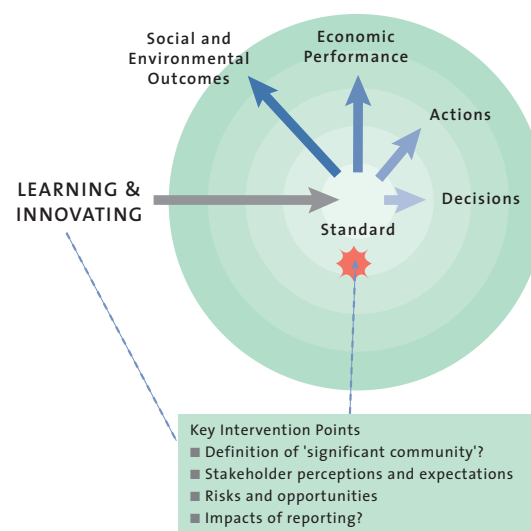
“There is a need for consistency and consolidation, where applicable, of standards in this area without being too prescriptive, in terms of the principles and guidelines behind the types of metrics to be used... Discussions on best practices in business involvement in economic development have to strike the right balance of influence and responsibility between business, government, and community.”

(L Zarnikau, ConocoPhillips, Email and Telephone Survey, January 2003)

“Standardisation of CSR would not open the hearts and minds of managers, nor add value to their business.”

(C Kühnl, Siemens AG, Companies Workshop, London, March 2003)

Figure 7: Limiting Factors in the Role of Standards



labor supply in emerging markets. Social and sustainability-related accounting and assurance frameworks, such as the broad-based AA1000 series, would be very useful tools in addition to prescriptive reporting guidelines, such as the GRI Economic Performance Indicators, which act as important reference points. Indeed, BAT, Novo Nordisk A/S, and SABMiller all use both frameworks.

But in a complex world, a company that already uses the GRI, AA1000S, or other standards at the corporate level stills needs to manage economic development at the community level in different contexts – sector, geography, or business unit. (Section 4.0 proposes a framework to enable companies to do so.)

3.2 Diminishing Returns Arise from a Company Acting in Isolation

Policymakers and other advocacy groups, particularly the SRI community, can provide an enabling environment for lasting change. A company may share the same brand or fate as others in its business sector (e.g., energy, pharmaceuticals, textiles, and so on) or that are brought together by a common challenge (e.g., labor standards, black empowerment or diversity, and so on).

This is especially the case among those companies whose greatest economic impacts are indirect or induced and thus more difficult to control on their own. In such situations, collective action or regional partnerships between companies and advocacy groups – such as NGOs, investors, governments, or trade unions – are essential to delivering the desired social and environmental outcomes.

There will need to be antitrust or competition measures at the sectoral level to protect poor and disadvantaged communities in consumer markets. Furthermore, companies will have to “scale up” to national levels of competitiveness where different types of corporate responsibility clusters are already forming. This goes beyond the matter of tax, to the ultimate issue of trade.¹⁷ The figure opposite illustrates this proposition.

In the minerals and extractive industry, for instance, companies interested in exploring for resources have faced pressure from NGOs and local communities over the social and environmental sustainability of their operations. Current industry initiatives, such as ICMM and IPIECA, are exploring what sustainable development means for the metals, mining, oil, and gas sectors. BSR also has been working with the resource

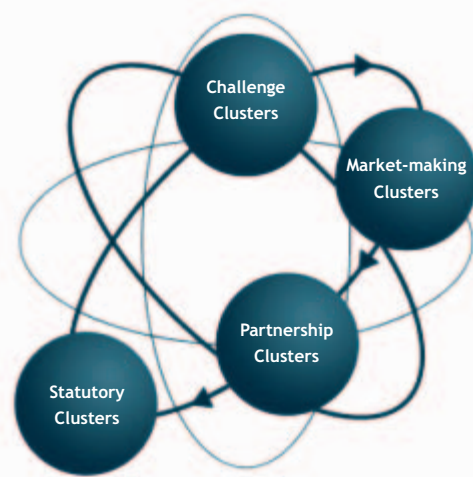
“DFID consciously chooses to support frameworks, and related corporate responsibility initiatives that aim to alleviate poverty, which nurture learning by both providing guidance or controls and enabling positive change at the same time.”

(E Rich U.K. Department for International Development, Companies Workshop, London, January 2003)

“Whilst we can provide an overall framework, there is no point in London headquarters telling a regional office in Malampaya (The Philippines) what specific socio-economic indicators are a priority to measure and manage... these need to be determined locally through consultation with the community and other local stakeholders.”

(T Fossgard-Moser, Shell International, Advocacy Groups Workshop, London, February 2003)

Figure 8: Responsible Competitiveness and Clusters



Source: The Copenhagen Centre & AccountAbility, 2003

“NGOs strategic campaigns against or with individual companies, industries and governments need to focus on the opportunities arising from good performance, as well as the business and societal risks associated with non-compliance through irresponsible and unaccountable practices.”

(P Frankental, Amnesty International, Advocacy Groups Workshop, London, February 2003)

sector to test the effectiveness of this economic impact strategy through engagement with industry players, international stakeholders, and local communities.¹⁸

“From a sustainable development perspective, the key question about a company’s economic impacts is does the company create or destroy human and natural capital in the process of wealth generation.”

(N Robins, Hendersons Global Investors, Advocacy Group Workshop, London, February 2003)

“ICCR is a coalition of faith groups - institutional investors working together to bring about economic justice. Our strategic approaches include direct dialogue with the company and the use of the shareholder resolution. As an example of our efforts, General Motors, as part of their commitment to corporate responsibility, have begun to build affordable housing for their workers.”

(Sister P Wolf, Interfaith Centre on Corporate Responsibility, Advocacy Group Workshop, Washington DC, March 2003)

Investors Issue Wake-up Call to the Pharmaceuticals Industry

An investors group representing over UK£600bn in assets under management has called for action on global health issues by the pharmaceutical industry. The group includes leaders in socially responsible investment, large pension funds and mainstream investors. With the world facing a predicted AIDS toll of 46 million in the next decade and more people than ever suffering from TB, malaria and other infectious diseases, the investors are concerned that the long-term value of their pharmaceutical holdings could be affected “should companies fail to respond to the crisis in a proactive and coherent way”, they said in a joint statement. The investors, lead by ISIS, together with the University Superannuation Scheme, also includes the Co-operative Insurance Society, Ethos, Henderson Global Investors, Insight Investment, Jupiter Asset Management, Morley Fund Management, Legal & General, PGGM, and Schroders.

The statement outlines concerns about the long-term impact of the public health crisis in emerging markets and argues for pharmaceutical companies to take proactive action, in partnership with governments, to enhance access to urgently needed medicines in developing countries. It sets out a framework of good practice, which it urges company directors to consider in their management decisions and disclosures, and is intended to be an additional tool for investors and analysts to assess the long-term investment value of pharmaceutical companies. The voluntary framework has been developed in consultation with industry, the wider investment community and other organizations such as the U.K. government, World Health Organization, and Oxfam. The statement calls upon companies to demonstrate that they have fully considered the risks and opportunities they face and have effective policies and processes in place for dealing with the challenges.

Source: Ethical Corporation Magazine, March 2003

3.3 Business Can Influence Politics in a Responsible Way

What is the appropriate role of business in creating effective public policy on economic development? According to SustainAbility and GPC International (2001)¹⁹ “corporate political activity” is an umbrella term used to describe all the ways in which companies seek to – and do – influence public policy. This includes not only direct lobbying, but things like membership in industry associations, financial contributions to candidates or parties, and issue advertising.

As a result of their role in economic development, large multinationals have an influential role in global and local government policies. However, many among the public suspect multinationals of abusing their influence. Time and time again, proposals for internationally protective social and environmental measures have been blocked or delayed by business resistance, such when the United States failed to ratify the Kyoto Convention on climate change.

All businesses should act within the law and operate within the terms of their operating licenses. But this is not to say they necessarily agree with the law or their regulator. This why many companies seek to, and in practice, do, influence public policy, individually in the case of large companies and collectively through chambers of commerce and trade associations for smaller enterprises.

Taxing Questions: Are You a Fully Paid up Corporate Citizen?

How many of these aspects is business prepared to disclose:

- All territories where a company operates
- Turnover to third parties in and out of each territory
- Sales to group companies made from each territory
- Taxable profit in each territory
- Tax due on profits in each territory.

Source: The Observer, 12 January 2003

The positions companies adopt on such matters are of course based primarily on considerations of future profitability. The influence business exerts over public policy can also have immense economic effects. Tuppen and Zadek (2000)²⁰ believe that there are two principal routes through which companies exert influence: *defensive* financial *advocacy* and *proactive* public policy advocacy. In the former case, privatized utilities, transport, and infrastructure companies

seek to influence public policy on penalties for service shortfalls set by their regulator. At a macro level, business also seeks to influence the broader regulatory environment, such as with international trade negotiations. From a proactive perspective, there are also issues that result from government action on matters of social or environmental concern. Companies likely to be adversely affected commercially by new regulations or economic instruments may campaign against such changes no matter the resulting wider economic, social, or environmental good, as with the issues of taxation or climate change.

According to the NGO War on Want, because of so-called tax competition – havens competing with each other for mobile capital – the world is facing a growing problem in collecting the necessary revenue to provide public goods and services such as transport infrastructure, health services, and education, which are vital for reducing poverty in developing and developed countries alike.²¹ Consequently, the tax burden and related costs are shifting from multinationals to smaller businesses and individual citizens. War on Want concludes that OECD countries need to restrict global treaties to prevent extreme outcomes whereby barriers to business competition or trade are removed without any perceived benefit or understanding of the impact on the poor.

“A key measure for economic development by business would be tax credit disclosure. These monies would otherwise contribute to our schools and hospitals, so transparency in costs and benefits is critical.”

(G Le Roy, Good Jobs First, Advocacy Group Workshop, Washington DC, March 2003)

While acknowledging the benefits multinationals bring to emerging markets, such as the introduction of new technologies and expertise, the South African New Economics Network (SANE) also notes that because corporations are measured in the results they declare in the country in which they are registered, tax authorities in developing countries where subsidiaries are sited need to apply innovative thinking to the potential distortion of tax flows overseas.²² With this in mind, the AABA proposes a test of company accountability and transparency with its “taxing questions” (see box above).²³

Sydney Water: Capital Expenditure for Environmental and Public Health Gain



A public corporation, Sydney Water delivers over 1.6 billion liters of water to 4.0 million customers in Sydney and the Illawarra and the Blue Mountains in Australia. With 3,630 staff and annual capital works of around Aus\$500 million (US\$312 million), Sydney Water is a major contributor to state development. The company's vision is to be a water services provider that achieves world-class performance in everything it does, enjoys the trust and support of the communities it serves, and has employees who take pride in their contribution to its success. Key to achieving this vision are Sydney Water's values: respect for people; delivery quality; care for the environment; being open and honest; and being willing to learn and share change.

Sydney Water describes itself as a "community asset" whose sole equity shareholder is the state of New South Wales, Australia. As such, one of its core objectives is to efficiently deliver a capital expenditure program that will provide environmental and public health benefits to the community it serves. Key considerations in this respect are as follows:

- Protecting public health by supplying safe drinking water and effective wastewater and stormwater services
- Ensuring that all customers, especially those with special needs (such as poor and disadvantaged members in society), maintain fair and affordable access to essential services

The company defines community as "the people, groups, and institutions within the area covered by Sydney Water's operating license or directly affected by Sydney Water's activities." As detailed in its *Towards Sustainability Report 2002*, which follows the requirements of the GRI, the big challenge for Sydney Water is that over the next 20 years the number of customers it serves will grow by an estimated 700,000. Their

needs must be matched while it upholds wider strategic commitments to sustainable development.

Funding for the capital expenditure program comes from the rates that Sydney Water levies on its customers, developer services charges, and borrowings. Prices are determined by Sydney Water's pricing regulator, the Independent & Regulatory Tribunal (IPART), through a public process. The capital budget for 2000 to 2003 was Aus\$500 million per year. Expenditures increased from Aus\$190 million in 1995-96 to Aus\$556.1 million in 2002. This is being translated into significant improvements in the quality of service for Sydney Water's customers and in environmental performance. Examples of progress are demonstrated by:

- *Reviewing project delivery processes.* The review of these processes has resulted in the adoption of a model for environmental impact assessment requiring integrated decision making across disciplines and at all phases of program and project development. The adoption of this model will facilitate better implementation of ecologically sustainable development within the planning and approvals process.
- *Innovation.* In 2001-02 Sydney Water invested Aus\$3.8 million in research and development, of which 27.6 percent went to projects focused on increasing the efficiency of its works and systems. It also seeks innovative solutions to capital works projects to improve both efficiency and environmental and social outcomes. For example, microbion technology is being used to upgrade sewage systems such as the one serving Wentworth Falls. By drilling through hills it had previously pumped over, Sydney Water is reducing electricity consumption and decreasing reliance on pumping stations. This also minimizes community and environmental impacts caused by above-ground construction and trenching.

Sydney Water states that it is committed to exploring ways of enhancing the efficiency of its capital works expenditure and to provide good outcomes for the community, the environment, and its shareholders. It will continue to develop appropriate performance indicators for this objective, which will be reported in 2003.

SustainAbility and GPC try to identify emerging best practice by inviting companies and their stakeholders to ask questions of the enterprise under the following headline themes:

- **Legitimacy:** Are the company’s methods of political engagement broadly accepted?
- **Transparency:** Are the company’s public policy positions and actions open to public scrutiny?
- **Consistency:** Are the company’s public policy positions and actions aligned across the organization – and with sustainable development commitments?
- **Accountability:** Are the company’s public policy positions and actions aligned with external expectations around corporate responsibility?
- **Opportunity:** Do the company’s public positions and actions build the foundation for it to become a more sustainable enterprise?

In terms of business influence and lobbying, the petroleum/energy company Shell International in The Netherlands/U.K. provides an example of this (see the “Good Practice” box on Shell).

Tuppen and Zadek go on to propose that companies should disclose “the level of financial contributions made to political parties” plus “any other means of winning political support.” Each company should also disclose “its position on relevant public policy issues and the routes through which it seeks to influence governments, including membership in associations, clubs, and other groups that lobby on its behalf.”

The implications for economic development, relate to disclosure of business lobbying for less taxation or more subsidizing of the company (or its industry), such as when fiscal contributions help build and maintain schools and hospitals.

Good Practice

“We, like other organizations, lobby governments and inter-governmental bodies, either directly or through trade associations. We do this to promote policies that favour enterprise and free markets and to ensure that legislation is workable. We believe in the benefits of partnerships with government to create an economic climate that favours beneficial change for all, such as tax incentives for cleaner fuels. At all times we advocate responsible business practices aligned with our Principles. We believe, for example, globalisation can be shaped to benefit humanity rather than a select few. This is why we support initiatives such as the United Nation’s Global Compact, the Global Sullivan Principles and the anti-bribery work of Transparency International.

Our lobbying is in line with our Principles:

- we tell the truth and comply with the law
- we don’t make payments to political parties, organizations or their representatives or take any part in party politics
- we are a “no bribes, fair competition” business
- we are open about our dialogue with government where commercial confidentiality permits
- we are open about the industry organizations we support
- we will provide full relevant information on our activities to legitimately interested parties subject to confidentiality and cost.”

Source: Shell International, People, Planet and Profits, The Shell Report 2001

The Ford Motor Company: Economic Impact of Manufacturing Operations



The Ford Motor Company is the second largest producer of cars and trucks in the world, with sales reaching US\$163.4 billion in 2002 and an estimated 350,321 employees. The company's stock is listed and traded on the New York and Pacific Coast Stock Exchanges in the United States and on stock exchanges in Belgium, France, Germany, Switzerland, and the United Kingdom.

Starting with Henry Ford's revolutionary manufacturing model of mass production in the early twentieth century, the company has been regarded as an American icon that symbolizes the economic prosperity and industrial capacity of the United States. The company has continued to contribute to the economic development of local communities through a variety of ways. In its 2001 Corporate Citizenship Report, the company identified several key areas of impact and what it has done to manage these impacts:

- **Employment:** The company develops policies and practices that help employees and communities face the economic impact of the company's workforce reduction.
- **Facilities siting and management:** In 2001, the company spent \$6.36 billion on research and development into new production processes and to invest in plant infrastructure.
- **Philanthropy and community investment:** Despite an uncertain business climate, the company contributed \$139 million in charitable giving in 2001.
- **Financial investment and fiscal contributions:** In 2001, Ford paid an estimated \$4.575 billion in taxes worldwide.

The company is also looking at the economic impact of its 110 manufacturing plants – located in over twenty-five countries – which have been the drivers of local economic development through their creation of jobs, taxes, and local infrastructure investment.

Ford came to BSR to gain a better understanding of how to manage and enhance its impact on communities after initial data showed that there was a potentially strong correlation between community impact and business performance. Data from the company's employee surveys and anecdotes from plant managers suggest that strong relationships with the community can boost employee morale, enhance supplier relationships, and improve overall business performance.

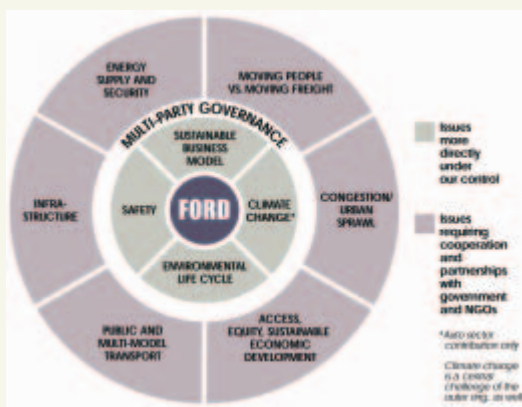
The Economic Impact Management Process (see [Section 4.0](#)) gives the company the opportunity to:

- Create metrics that are aligned with company and community expectations.
- Improve relationships with communities through a partnership model.
- Understand and strengthen the relationship between corporate community impact and business performance.

Ford has begun implementing the framework in two plants in Michigan near its corporate headquarters. The differences in implementation at each of the plants demonstrate the flexibility of the framework. In one plant, the issues the company faces in the community appear to be well understood, and it is hoped that the process will verify areas of focus where the company can have the greatest positive economic impact. The second plant is larger and has a greater number of stakeholders with whom to engage. This makes the process longer and more complex. The plant will first select its significant stakeholders and then work with these stakeholders to define key areas to address. Although the plant has a history of working on various levels with local community groups, the hope is that the Economic Impact Framework will allow plant representatives to use a more systematic approach to stakeholder engagement that consciously considers community input in decision making and helps frame priorities moving forward.

In both processes, core plant employees – including the plant manager – are involved to ensure that the process aligns or makes the business case for the company.

Final conclusions on the implementation of the framework and the metrics used are not available as of this writing. However, the company hopes to use this process to understand the ties the company has to local communities.



3.4 It is Not a Simple “Voluntary versus Mandatory” Debate

Regulation is a question of balance. It is important to move quickly beyond the misleading “voluntary versus statutory” policy debate. There are countless examples of businesses supporting regulation to level the playing field and of social and sustainability benefits being achieved through nonstatutory, partnership models. Sequencing of rule-making is key, because preemptive standardization can be just as damaging as an “anything goes” approach to reporting and assurance.

Regulation in this area already exists, notably in the form of U.K. and U.S.A. legislation requiring mandatory disclosure. Under the 1985 U.K. Companies Act, businesses are required to disclose political donations in their annual accounts. The 1972 U.S.A. Community Reinvestment Act (CRA) requires banks to address underserved markets on three levels: disclosure (allowing banks and local parties to identify market gaps), rating, and sanctions against worst performers. Under the CRA, banks have committed US\$1 trillion in loan pledges. The efforts of banks are supported by public funds in the form of loan guarantees, tax credits, and funding for CDFIs (community development finance initiatives), which act as partners with the banks. As a result, investment by national banks in community development has increased 800 percent over the past six years.

But there are several voluntary initiatives that have also successfully sought to encourage and enable enterprise to lead inner-city revitalization in particular, such as Inner City 100 indices in the U.K. and the U.S.A. Yet according to the New Economics Foundation (2002) the message from entrepreneurs to policymakers and investors is that they have succeeded largely in spite of, not because of, government and private sector intervention. Among other things, U.K. government initiatives need to be reviewed to support and enhance city-level and regionwide leadership.

Enterprise-led Inner City Revitalisation

The Inner City 100 was conceived by Michael Porter, the renowned Harvard academic and author, in 1997. The idea for the Inner City was based on his work “The Competitive Advantage of Nations”, which outlined how the competitive advantage of nations contributed to their economic prosperity. Porter realized that this theory could also be applied to inner cities and launched the Initiative for a Competitive Inner City (<http://www.icic.org>) in the U.S. By uncovering and highlighting fast growth inner city businesses, the Inner City 100 US (<http://www.innercity100.org>) – an index of the top 100 fastest growing businesses in U.S. inner cities – aims to show that inner cities can be competitive areas for doing business. In June 2000, with policy backing from the Treasury, and in partnership with ICIC in the U.S., the New Economics Foundation (NEF) took the lead to establish the Inner City 100 in the U.K. The focus on entrepreneurial achievements in deprived communities fitted with the U.K. Government’s aim to support enterprise growth for all, and its general support for NEF’s highly-regarded work on enterprise-led local development. According to NEF, the Inner City 100 has changed the perceptions about the economic importance of the U.K.’s inner cities, both as investment locations and a breeding ground for new business ideas.

There has been clear movement in this area already in Europe. For instance, the European Commission recognizes that profitable firms are sustainable and have a better chance to adopt and develop responsible practices that benefit society and the environment. As a result, in its *Communication on Sustainable Development* (2002), the EC states that the role of enterprise policy is to help create a business environment that supports the Lisbon goal of “becoming the world’s most dynamic knowledge-driven economy, which fosters entrepreneurship and sustainable economic growth.”²⁴

Also drawing upon Porter's body of work, The Copenhagen Centre and AccountAbility (2003) argue that corporate responsibility offers real potential for delivering business success aligned to sustainable development. However, the challenge is in scaling this up to shape sectors, entire markets, and ultimately the global economy in ways that mean business strategies and practices can *only* be successful if they contribute to, and not undermine, sustainable development. Regulation has an important role to play here, but regulation that undermines national and regional competitiveness will understandably be resisted, both by the business community and other communities who have much to gain from economic growth. Thus, the challenge is to shape public policy in ways that deliver responsible business practices and competitiveness. It is in this context that the Copenhagen Centre and AccountAbility have explored the potential for *corporate responsibility clusters* to provide one mechanism through which scaling up can be achieved. These are often specific to particular sectors (e.g., pharmaceuticals) or situations (e.g., post-apartheid South Africa).

4 Managing Economic Development with Communities

Key Learning

- Companies can use all of their assets – philanthropic monies, hiring, sourcing contracts, financial investments, real estate, and so on – to affect communities in ways that strengthen their social and economic fabric and create a more stable environment in which to do business.
- Companies can ask two overarching questions to help identify what defines “community” for the purpose of measurement: *What groups are affected (or perceive themselves to be affected) by a project, product, or investment? And who can play a significant role in shaping or affecting the project or investment?*
- The process of measuring and managing economic impact on communities has five elements:
 - 1 Identify risks and opportunities.
 - 2 Engage significant communities.
 - 3 Define strategy to improve impact.
 - 4 Develop indicators.
 - 5 Manage and improve impact.
- The process of measuring and managing economic impact can be designed to build on and complement existing corporate responsibility and quality management standards.

4.1 Economic Impact Management Process

This section describes in detail the Economic Impact Management Process – a process for measuring, managing, and reporting a corporation’s economic impact on its significant communities. Like many other management processes, it is a cycle of continual performance improvement via ongoing innovation and learning: the familiar “plan, do, check, act” cycle. Further details are available at the project website at: <http://www.economicfootprint.org>.

The Economic Impact Management Process has five key elements:

- 1 Identify risks and opportunities.
- 2 Engage significant communities.
- 3 Define strategy to improve impact.
- 4 Develop indicators.
- 5 Manage and improve impact.

The elements of the model are outlined in the following figure and detailed in *Sections 4.1.1 to 4.1.5*.

The Economic Impact Management Process is designed to be flexible enough to be useful to managers at all corporate levels. It also has been designed to complement and build on existing corporate responsibility standards and systems such as the GRI and AA1000S. The figure in *Section 4.2* outlines synergies and compatibility between this framework and existing corporate responsibility standards.

The Economic Impact Management Process is most appropriate for corporations that have already determined that managing their economic impact on their significant communities is a critically important management task. This process is a tool for managing impact, not a tool for deciding whether or not to manage impact. Accordingly, this section will focus entirely on *how* to manage impact. For findings on why leadership companies are increasingly choosing to manage economic impact, see the earlier [Section 2.3](#).

4.1.1 Identify Risks and Opportunities

When a company finds itself trying to understand and measure its corporate contribution to the economic performance of poor and disadvantaged communities, it is usually in response to the convergence of internal and external pressures that underscore the need to, and the business benefits of, managing this economic impact. The first step is to identify correctly the key internal and external risks for the corporation. What are the key risks that the corporation is seeking to mitigate through managing its economic impact? What are the key opportunities that the corporation wishes to profit from?

A Definition: What is Risk?

“In all types of undertaking, there is the potential for events and consequences that constitute opportunities for benefits or threats to success. The benefits and opportunities should be viewed not just in the context of the activity itself but in relation to the many and varied stakeholders who can be affected”

Source: AIRMIC/ALARM/IRM Risk Management Standard, 2002

Our research suggests that the risks and opportunities vary significantly depending on industry, geography, and community. All of the following issues need to be considered when analyzing risks and opportunities:

- Industry structure
- Public opinion
- Laws and regulation
- Competitive positioning of the company
- Factors specific to the geographic regions in which the company is operating.

Figure 9: Process Summary for Economic Impact Process



Business Risks:

Corporations face a wide array of risks each day, some of which can be mitigated by managing their economic impact on significant communities. Obviously, there are also some risks that cannot be mitigated effectively by managing economic impact. For example, a board of directors failing to exercise proper oversight over the company's auditors is clearly such a risk. Enron offers a classic example of a company that had strong processes for managing and enhancing its economic impact on significant communities, but these processes had no impact at all on the management of financial responsibility and accountability at the corporate level.

Business risks that may be addressed by managing economic impact on significant communities include the following:

- *License to operate.* Companies operate in communities for a variety of reasons, including labor, market opportunities, and resource extraction. A record of positive economic impact can help bolster a company's case when it is called on to demonstrate or earn the right to operate in that community (e.g., U.K.'s BAA for London Heathrow Airport Terminal 5). (See [Section 2.3.2](#) for a more detailed discussion of the role of context in winning a license to operate.)
- *Regulatory actions.* A strong record of positive economic impact can help reduce regulatory burdens and head off onerous future regulation (similar to the U.S. Community Reinvestment Act of 1972 and South Africa's King Code on Corporate Governance of 2002).
- *Community relations.* A strong record of positive economic impact helps companies to respond effectively to a crisis or public-relations episode that highlights inadequacies or inefficiencies in how the company addresses or communicates about its relationship with surrounding communities.

Business Opportunities:

Our research suggests that the following business opportunities can be enhanced by managing the economic impact of the corporation:

- *Brand value.* If it is able to communicate effectively, and in a coordinated manner, the totality of its economic performance efforts, a corporation can enhance its brand value. A well-functioning reporting system allows a corporation to demonstrate to award programs, the media, and others its contribution to improving the world economy (e.g., Johnson & Johnson in the U.S.A., B&Q in the U.K., Eskom in South Africa).
- *Access to capital.* The ways that companies contribute to sustainable development in communities is becoming one of the criteria for investing and ranking companies among SRI funds and socially screened indexes (e.g., ASPI in France, DJSI in the U.S.A., and FTSE4Good in the U.K.).
- *Access to market and market share.* Poor and disadvantaged communities usually exist away from most businesses. As a result, they are a potential market for companies who study closely their behavior and consumer patterns (e.g., VanCity in Canada, Ahold in The Netherlands, Nuevo Grupo in Brazil, Procter & Gamble and Starbucks in the U.S.A.).
- *Ability to attract and retain high-quality staff.* A positive reputation increases a company's attractiveness as a great place to work (e.g., IBM in the U.S.A., Asda in the U.K., and Unipol in Italy).

4.1.2 Engage Significant Communities

Once a company understands the key risks and opportunities it is seeking to address in managing its economic impacts, it then needs to define which communities to engage and go through a process of engaging those communities in defining the objectives and strategies for enhancing its economic impact.

'Significant Community'

A company's significant community is a group of individuals bound by a common experience who affect, and who are affected by, business operations and thus can be bound by geographic proximity, historical relationship with the company, or other common experience. For example, a company operating in an unpopulated region in Namibia during the period of South African rule chose to define the whole country of less than 2 million people as its "community." Choosing the whole country also enabled the company to fulfil its objectives of demonstrating that it has been of benefit to all of the communities from which it draws its employees and to the Namibian people in general. The success of its foundation helped the company maintain good relations with the post-independence Namibian government.

Source: IFC Guide to Community Development

Determine Significant Communities:

Before companies can begin to measure and manage their economic development impacts, they must define which "communities" are most relevant to them. Certain communities will be more "significant" to the company than others. A *significant community* could be a local neighborhood, a country, or a marginalized group in society. Identifying a company's significant communities, and what their primary expectations are, is critical to creating an appropriate system to measure economic performance.

There are two overarching questions that can help identify a significant community for purpose of measurement: *What groups are affected (or perceive themselves to be affected) by a project, product, or investment? And who can play a significant role in shaping or affecting the project or investment?*

This definition of *significant community* differs from the traditional notion of *stakeholders*. The significant community is in fact a subset of all stakeholders, with stakeholder being defined as "an individual, community, or organization that affects, or is affected by, the operations of a company. Stakeholders may be internal (e.g., employees) or external (e.g., customers, suppliers, shareholders, financiers, significant community)." (Refer to the glossary at the back of this document.)

Criteria for a company to consider when defining its significant communities might include these:

- *Geographic proximity*: communities that are near corporate operations, facilities, or areas affected by operations (e.g., downstream a contaminated river)
- *Level of dependency* (monetary, employment, administrative, customer base, and so on) based on market share or created by corporate supplier relationships, employment, and social investment programs (e.g., percentage business of a specific vendor)
- *Level of positive/negative social and environmental impact/outcome* caused by company
- *Approachability/willingness to engage with company*
- *Potential for future market/Level of purchasing power*
- *Legal responsibility of company*
- *Direct vs. indirect and induced impacts*
- *Level of influence over company*
- *Issue areas of concern*
- *Knowledge level of the issues*
- *Historically marginalized and poor groups in society*

Considering these criteria in the context of the most compelling business drivers will help a company determine its significant communities. The following table provides examples of how key corporate drivers link to influencing criteria and to potential communities.

Figure 10: Relationships Between Driver, Criteria and Community

DRIVER	RELATIONSHIP TO CRITERIA	SAMPLE COMMUNITIES
License to operate	Directly related to close geographic proximity and levels of environmental; social impact and dependency, level of influence; knowledge level of the issues, and soon.	■ Neighbouring communities
Understand community impact	Directly related to level of dependency, high level of social and environmental impact, importance of product or service as a good to society.	■ Factory worker ■ Potential consumers of particular product or service (eg. pharmaceuticals, water)
Regulatory pressures	Directly related to existing legal responsibility of the company.	■ Unions ■ Redlined communities
Increase access to market share	Level of purchasing power.	■ African-Americans or Latinos in the U.S. ■ The disabled in the UK

Differing Interpretations of Community by Corporate Reporters

As detailed earlier in *Section 2.2.1* the ‘Economic Reporters Report’ pieces of this study found that 41 percent of reports included a commitment to the economic development of the community. But only 19 percent of companies actually defined their significant community in their reports. In most cases, they referred to local neighbors or community groups adjacent to plants and operations. This suggests that company management does not think outside of limited geographical boundaries when it comes to conceptualizing communities of interest. The Canadian energy company Talisman, for example, framed community in terms of *the communities in whose areas Talisman operates, whereas VanCity referred to local community groups*. Could community be described in a different way? By thinking “outside the box,” companies could reflect the fact that stakeholders are not homogeneous and may be bound by other common socioeconomic characteristics or relationships, such as poverty and deprivation or disability, in addition to geographic proximity. Communities may also include a company’s suppliers, employees, and customers.

The following box provides some data from the present research on which companies reported on their significant communities, and how they defined them.

Engage Communities in Designing Goals and Metrics:

Once a company has decided which communities to engage, it needs to determine how it will engage those communities in defining its objectives and strategies for enhancing its economic impact. Engagement processes can vary tremendously from company to company, depending on available staff, buy-in, resources, level of corporate responsibility, and level of involvement desired by the communities identified. The engagement could be as simple as contracting personnel from the significant community as employees or vendors. Or it could be a more inclusive and expansive process that involves many different stakeholders convening in formal dialogue.

Determine Economic Goals for Engagement:

The operational definition of a community’s economic development is created by the company and the community representatives together. Inevitably, the vision of development that emerges will interweave global and local elements of economic, social, and environmental well-being in ways that are culturally appropriate for those communities. For example, for an African community, better health care might mean increased access to modern health services but also greater emphasis on traditional medicines. Economic well-being may refer not only to access

to some of the jobs that would inevitably result from the company's activities but also to the indirect impacts of a company's standards of hygiene, behavior, and investment.

Determine Level of Involvement*:

Community stakeholders will have different capacities and interests for involvement in the development of an economic measurement framework. At the same time, certain corporate decisions cannot be shared externally for privacy and competitive reasons. Companies and communities need to decide on the desired levels of participation in decision making. These range from providing information to eliciting feedback to shared or joint decision making.

Determine Vehicle for Engagement*:

The company will need to identify the organizations or individuals it can engage with and develop a process or vehicle for this engagement (i.e., a series of consultations, or a joint company-community/multi-stakeholder vehicle). Through this vehicle the company and the community will together design a strategy to manage and measure economic impact using the company's assets.

Benefits and Costs of Engaging Communities*:

There are both benefits and costs to engaging communities. In general, the higher the level of engagement, the higher the potential payoff, but the greater the investment of time and resources required as well.

Some of the benefits are as follows:

- **Community self-reliance.** By establishing that the community is the driver of its own development rather than the company, the process helps reduce dependency and establish realistic goals. Community member expectations are also met more effectively because they are involved in the decisions that affect their lives.
- **Transferable model.** A community-centered development model allows a global company to develop policy guidelines applicable across business units. Such a model allows comparability in the reporting of impacts across operations under such broad headings as economic, social, and environmental well-being, although the specifics of implementation would still vary at the community level. Training programs on how to implement such a model would also be transferable from one business unit to another.
- **Improved efficiency.** The strategies that are developed are likely to be more sensitive to important local conditions, better able to leverage local resources, and thus more efficient at creating economic impact. This could lead to an increase in the positive impact even without an increase in the overall financial contribution of the company.
- **Improved reputation in communities.** The company's reputation in the community is likely to improve. Studies show that the contribution that companies make to the well-being of the communities in which they operate is one of the defining elements of a responsible company for the general public.

There are also challenges:²⁵

- **Difficulty in establishing trust.** Establishing and maintaining trust between company and community is difficult, particularly if company management is of a different class, ethnicity, or nationality than those in the community. Gender may also be an issue. Companies often resist partnering with communities because they feel they cannot trust the community or for fear that by engaging with them they will be opening themselves up further to future stakeholder criticism.
- **Significant investment of time.** Working with communities requires time, particularly at the beginning of the relationship as each side gets to know and understand the values, interests, and culture of the other. As with any core business activity, the goal is to ensure that any initial investment of resources will benefit the company in future phases of development.
- **Release of control.** Partnering with a community means yielding some degree of control over process and outcome. This underscores the importance of developing common goals and desired outcomes.

* Adapted from BSR's *Engagement Model for Communities*, internal working document 2001.

4.1.3 Define Strategy to Improve Impact

Companies can use all of their assets – philanthropic monies, hiring, sourcing contracts, financial investments, real estate, and so on – to impact communities in ways that strengthen the social and economic fabric and create a more stable environment in which to do business. Once the significant community has been identified, the corporation and the community can work together through the engagement process to determine which corporate activities directly address the issue. Our research suggests that the benefits for the company and community are maximized when focused on those assets that a company controls:

- Who and how a company hires
- Where and how a company sites its facilities
- What and from whom a company purchases
- How, what, and to whom a company sells
- Where and with whom a company invests its cash assets
- Who and how a company influences
- Where and to whom a company gives.

Each one of these areas can affect the community in positive, negative, direct, and indirect ways. Together, the company and the community should study the impact of each of the areas and determine where the greatest opportunity for improvement lies. The following table provides sample questions that a company and the community can ask to select the key business activities, which is part of the strategy to improve impacts on the community.

Figure 11: Relationships Between Business Activity and Economic Impact



Once the relevant significant business activities have been selected, then the company and the community can together design the necessary strategies and action plans needed to achieve a positive economic impact.

The present document will not detail how to develop a policy and implement an action plan (with goals, objectives, budget, and time line) that would be necessary to improve the company’s economic impact.

4.1.4 Develop Indicators

Having the strategies and action plans for enhancing the company’s economic impact on the significant communities in place enables the company and the communities to work together to develop specific objectives and targets for each strategy. These objectives then become the basis for the indicators that the company can measure its performance.

Figure 12: Indicator Selection and Risk, Description, and Function

ACTIVITY	RISK/OPPORTUNITY	DESCRIPTION	FUNCTION	SAMPLE INDICATOR
Employment	Diversity in hiring resources	Who and how a company hires	Human resources	Percentage of underrepresented employees by levels of responsibility
Facilities siting and management	Negative long term effects of operations	Where and how a company sites its facilities	Real estate, store developer	Percentage of facilities located in under-served areas
Sourcing and procurement	Diversity in sourcing	What and from whom a company purchases	Supply chain, outsourcing	Percentage of contracts with local businesses owned by excluded groups
Product and service development, use of delivery	Redlining poor communities/new markets	How, what and to whom a company sells	Marketing, R&D and distribution	Percentage of marketing budget dedicated to under-served target market
Financial investments and fiscal contributions	Proactive investment in poor communities	Where and with whom a company invests its cash	Finance, treasury	Percentage of investments in minority/excluded group-owned enterprises and/or banks
Philanthropy and community investments	‘Ring fencing’ of social investments	Where and to whom a company gives	Community relations, foundation	Percentage of charitable giving that targets under-served communities

Because each company’s structure is different, management will need to look internally to determine the relevant departments that will be held accountable for performance on economic issues. There are several corporate activities that can contribute to the economic development of communities. The preceding table presents a picture of the different business activities – with their risks-opportunities, activity descriptions, and related business units – that may have a direct relationship with the desired outcome; corresponding sample indicators are also provided.

Each of these areas can individually promote economic development for a significant community. When integrated into a more holistic approach, the impact may be greater.

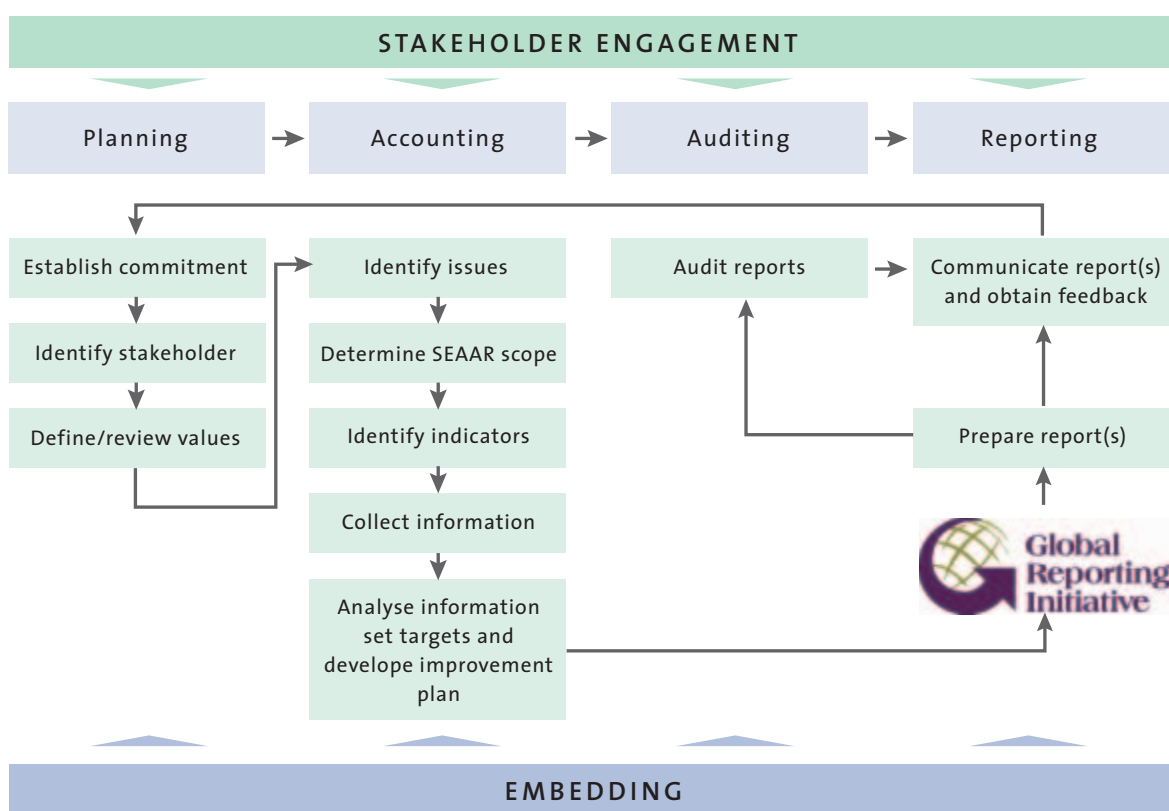
4.1.5 Measure and Manage Impact

If the previous steps have gone well, the corporation and the community should have developed a clear economic strategy with goals, objectives, budget, and time line. Implementation of this plan will rarely be linear. The company and the community should be prepared to evaluate the process and made adjustments accordingly. The evaluation plan should be modeled on a continuous improvement process. If the process has adequate participation from the significant community, implementation will enable the company and the community to understand whether or not positive economic impact is being achieved, and what can steps can be taken to continue to improve the results obtained.

4.2 Compatibility with Other Management Process Models

As already noted, the Economic Impact Management Process is intended to build on and complement contemporary corporate responsibility standards. A quick review shows that it builds on the four-step process principles of plan, do, check, and act that are common to ISO environmental or quality management standards, such as ISO14001 and ISO9001. Also, through its emphasis on stakeholder engagement and risk management, it links nicely with other frameworks, notably AA1000S, EFQM Business Excellence Model, GRI, and SA8000. This allows the framework to be mapped over, and integrated with existing corporate policies, strategies, and systems. For instance, with respect to AA1000S, core quality principles derived here relate to completeness (i.e., full coverage across the business activities that have an economic impact), materiality (i.e., relevance of information provided), and responsiveness (i.e., engagement of stakeholders). The following figure demonstrates the close connection between the base engagement model and other management process models.

Figure 13: Stakeholder Engagement with Communities - Linkage to Wider Corporate Responsibility Strategies

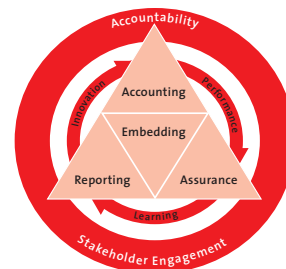


Quality in Stakeholder Engagement

The concept of stakeholder engagement is of importance to several leading frameworks, notably AA1000S (on inclusion), EFQM (on quality), the GRI (on reporting) and SA8000 (on labor standards). AccountAbility for instance has placed it at the core of its AA1000 Series through the concept of inclusion.

Inclusion means that all stages of the process over time reflect the views and needs of all stakeholder groups. Stakeholder views are obtained through an engagement process that allows them to be expressed without fear or restriction. Inclusion requires the consideration of "voiceless" stakeholders including future generations and the environment. As part of AA1000S, the Measuring and Communicating the Quality of Stakeholder Engagement Module requires a further step in building indicators within and across which the three principles of completeness, materiality and responsiveness are fundamental.

As depicted in the chart above, the AA1000S is compatible with The GRI Sustainability Reporting Guidelines.



5 Conclusions and Next Steps

Corporate responsibility and economic development agendas are beginning to converge around big humanitarian issues, such as social inclusion, diversity, poverty alleviation, health economics, and international trade relations. Key to this trend is the recognition among several leadership companies that economic impacts are *the* critical means of delivering social and environmental results for poor and disadvantaged communities.

Yet this research concludes that the corporate responsibility movement is failing to help companies adequately manage their economic footprint in poor and disadvantaged communities.

At present, measuring, reporting, and managing the economic bottom line of sustainable development is uneven for many companies across the core business activities that have an economic impact. Perhaps most tellingly, less than half of the social and sustainability reports assessed showed a commitment to the economic development of the community from the top level of management, and only half of those that did had actually defined their significant community. Some companies are using input indicators, but fewer reports have output indicators, and only a small minority report on their attempts to develop and measure the outcomes of their economic impact on communities. There also appears to be little understanding of the indirect and induced impacts of company activities even though for many companies these may represent their most significant risks and opportunities.

Emerging standards for corporate responsibility also do not provide useful guidance for companies on economic development. In particular, there is confusion over the difference between the financial (e.g., staff remuneration) and the economic (e.g., a living wage for poor workers), which do not equate in practice. This flaw is reflected in, and compounded by, a “skills gap” in most company teams that are responsible for managing corporate sustainability; often there is a complete absence of specialist economic competencies.

Even where generic indicators have been developed as corporate responsibility standards and frameworks, such as those promoted by GRI, they do not always appear in the reports. Is this due to a lack of interest in economic footprints among companies or confusion over how financial and economic impacts equate in practice, especially at the community level? The research team’s interface with companies suggests that many of them are grappling with this issue and that the reality is much more complex than simply adapting a generic set of input, output, and outcome indicators. What companies need is a flexible, customizable framework that supports their ability, together with communities, to measure, communicate, and manage their economic footprint.

Substantive issues of corporate economic impact on poor and disadvantaged communities via investments, goods and services, employment practices, sourcing and procurement, and site selection should and can be integrated into corporate responsibility management and reporting systems. Some companies already do so, with SABMiller in South Africa and Shell International in Canada and the Philippines but two of them.²⁶ This situation provides a critical window of opportunity for NGOs, labor organizations, and investors, as well as policymakers in government, to control and enable change. In particular, economic development impact can now also be scaled up to the regional level with the recognition that corporate responsibility clustering initiatives are gaining ground among mainstream business, as demonstrated by this study.

As we proceed to Phase Two of this research, we invite companies and advocacy groups to help shape forthcoming research along the following lines:

- Deepen understanding of how companies can best respond to the growing challenge for them to engage in economic development, with a particular focus on the international dimension in the Southern Hemisphere.
- Identify and develop business strategies and public policies within specific industries (e.g., agriculture, apparel, extractive, pharmaceuticals) that are likely to enhance the effective role of business in contributing to economic development.
- Disseminate more widely the need for and means by which the economic development impacts of businesses can be managed as part of their broader corporate responsibility strategy and practices.

Core to the proposed approach is a *strategy that seeks to normalize economic development as an aspect of business performance and outcomes*. This means that it should be promoted as something that is to be handled alongside other business aspects, and where possible use the same tools and management structures, enhanced where necessary through new competencies and metrics.

Appendices

Appendix I: Methodology

This research study sought to answer four fundamental questions in relation to corporate responsibility and economic development:

- How are companies in practice managing their economic development impacts on poor and disadvantaged communities, domestically or internationally?
- How are social and sustainability reporting and more broadly emerging corporate responsibility standards shaping how economic impacts are reported?
- How might, if at all, management frameworks better support economic development-oriented performance?
- What are the implications for public policy?

What is Corporate Responsibility?²⁷

Corporate responsibility covers the *why, when, and how business actively manages its social, environmental, and economic aims, performance, and outcomes, and their relationship*. Corporate responsibility focuses on where businesses *have options and therefore choices to make and justify to their stakeholders*, including their role in shaping public policy and regulations.

The study approach comprised seven core tasks:

- 1 The development of an overall framework of domains of economic impact aligned with business functions
- 2 An analysis of contemporary corporate responsibility standards to determine the extent to which they address economic development for poor and disadvantaged communities
- 3 The assessment of 68 social and sustainability reports for their coverage of economic development performance, to ascertain what and how companies are currently reporting

on how they are measuring and managing their impacts

- 4 Three interactive workshops in the U.K. and the U.S.A. with company representatives and advocacy groups to share learning, give feedback on the preliminary findings and plan future work
- 5 E-mail and telephone surveys to support findings from the three workshops
- 6 Seven company interviews providing practical in-depth case studies from different sectors and regions of operation around the world
- 7 A literature review of related academic research and applied studies

Development of a Framework of Business Activities and their Economic Impact

Economic benefits accruing both to the company and community will be optimized when focused on those activities which a company controls. The objective of developing a framework for activities with economic impact in this way is to enable individuals and organizations to understand, manage, and communicate their *economic balance of accounts on significant communities*.

The *economic balance of accounts* is the net result of a company's positive and negative economic contributions to the company's significant communities. A *significant community* is a group of individuals bound by a common experience who affect, or are affected by, the business operation. This community may be bound by geographic proximity, historical relationship or common characteristic (e.g. ethnicity, gender, and disability, and so on). Economic impact has traditionally been broadly defined to mean *any increase or decrease in employment or output and any increase or decrease in the productive potential of the economy*.

The project team identified six common business activities aligned with community economic development:

- 1 Employment
- 2 Sourcing and procurement
- 3 Facilities siting and management
- 4 Product and service development, use, and delivery
- 5 Financial investment and fiscal contributions
- 6 Philanthropy and community investment.

Public policy, while not being classified here as another domain, is one of several critical channels influencing economic development through the other six (e.g., political lobbying on business tax in terms of *Financial investment and fiscal contributions*). Public policy can also be a distinct pathway of accountability in itself (e.g., public position on the voluntary versus mandatory reporting debate), but is not discussed in this report.

These domains were initially developed based on the significant body of research work developed by the grantees of the Corporate Involvement Initiative of the Ford Foundation (see description in the following box). The business activities were then tested in the three corporate and advocacy workshops for their applicability, usefulness, and relevance.

The Corporate Involvement Initiative

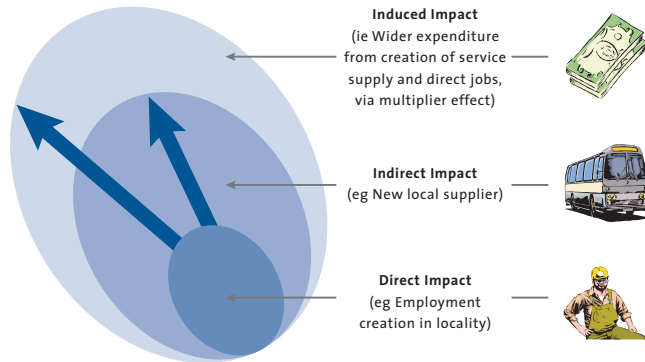
The Corporate Involvement Initiative, which began grant making in 1996, represents a concerted effort by the Ford Foundation to leverage private sector know-how and resources and foster and expand business innovation that can result in large scale improvement in income and wealth for low-income people within the United States. The Corporate Involvement (CI) Initiative focuses on expanding forms of corporate involvement in community and economic development (CI in CED) that:

- Engage core business operating resources and competencies (including such diverse functions as human resources, product development, marketing, procurement, real estate, investments, government relations) in addition to community relations and philanthropy;
- Are part of a company's ongoing business strategy and are seen as contributing economic benefit to a company (by unleashing workforce potential, expanding into new markets, improving community relationships, protecting the license to operate, enhancing reputation, and developing new products and services); and
- Have a positive impact on low-income individuals and communities (for example, by improving skills and earnings; by creating good jobs; by expanding opportunities to save and build wealth; and by strengthening small businesses located in low-income communities or owned by minority entrepreneurs).

It is not always the easily measured factors, such as number of jobs, that are of fundamental importance. A full understanding of economic impact requires that all direct, indirect and induced effects of economic activity be suitably addressed and measured. In calculating the gross impacts of jobs, one must account for indirect jobs created (or the multiplier effect of any economic activity), as well as *direct* permanent jobs. There are two multipliers used: the *indirect* or 'supply' multiplier which measures the jobs that are supported through the purchase of goods and services by the business that are supporting the direct permanent jobs; and the *induced* or 'income' multiplier, which measures the additional jobs arising from the expenditure on those in direct or indirect employment. For many companies, it may be the case that the induced economic impacts of their activities far outweigh their direct impacts (e.g. a regional airport in the aviation industry, or access to drugs in the pharmaceuticals industry). The sum of the direct, indirect and induced economic impacts of corporate activity are the 'economic balance of accounts' of the company.

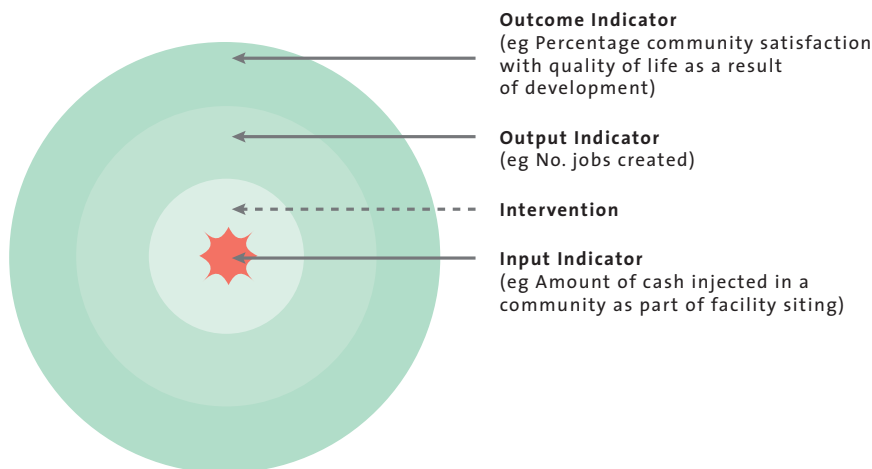
In order to understand and articulate its economic balance of accounts, a company needs to take measurements at various points in time. These typically would be appropriate prior to an intervention - an *input* indicator - and post intervention, that is an *output* indicator. Though both types of indicators are important, an additional type of indicator is necessary to understand the ultimate socioeconomic or induced impacts, this is an *outcome* indicator. Outcome indicators are often the most difficult to determine and measure as they often rely upon qualitative data and stakeholder participatory techniques as the company seeks to define the impacts for which it has responsibilities.

Figure 14: Types of Economic Impact



If one imagines the ripples of a pond, with concentric circles from the point of impact, this is like the indicator measurement. This is depicted in below.

Figure 15: Indicators of 'Economic Footprint'



As part of this study, the research team set out to:

- i identify and catalogue existing metrics used to rank and rate corporate activity (such as KLD social index and Global Reporting Initiative),
- ii compile new metrics developed through our organizational research (e.g. BSR's site selection working group, supplier diversity program)
- iii develop a new framework that helps companies identify the metrics that are aligned and relevant to their industry and stakeholder groups' interests.

The framework developed by the team is described in [Section 4.0](#) of this report. This framework was developed based on the four step process principles of 'plan, do, check, act' common to ISO management standards. Its emphasis on stakeholder engagement and risk management was developed using AA1000s, successful community engagement strategies used by BSR in its work with its corporate members and SA8000. The overall goal of the research team was to create a framework that was useful to companies and aligned with existing management processes and standards. The framework was tested for its usefulness and relevancy in the corporate and advocacy workshops.

Role of Economic Development in Corporate Responsibility Standards

This piece of the study is intended to provide a strategic analysis of a range of corporate responsibility-related standards as they relate to economic development for poor and disadvantaged communities.

As societal and governmental expectations for corporate responsibility becomes more defined, over the past few years a range of codes, guidelines, and frameworks have emerged that are designed to bring consistency to the measurement, management and reporting of social, economic, and environmental issues. Corporate responsibility-related standards fulfill a vital need in providing robust process guidance and indicators of both historic and future social, economic, and environmental performance. Not all of these standards are comparable in scope, intent, implementation, or applicability to particular companies, sectors, or industries. *Annex III* contains a table which provides an indicative list of standards many of which are referred to in this report.

Here, the term “standard” is used to describe a written document that seeks to influence behavior so that it is recognizable and reproducible in order to improve the social and sustainability performance of the organizations to which it is applied.

The various standards can be grouped as to whether they are:

- Aspirational principles and codes of practice (e.g., The Natural Step, UN Global Compact)
- Guidelines for management systems and certification schemes (e.g., EMAS, SA8000)
- Rating indices typically used by socially responsible investment agencies (e.g., DJSI, FTSE4Good)
- Accountability and reporting frameworks (e.g., AA1000S, GRI)

As part of undertaking this study of corporate responsibility standards as they relate to economic development, the research team draws upon existing surveys as outlined in below.

Contemporary Corporate Responsibility-related Standards Surveys

- EC DG Employment & Social Affairs, Mapping Standards for CSR, AccountAbility (Forthcoming – 2003)
- Comparison of Selected Corporate Social Responsibility-Related Standards, BSR (2001) compares 7 key standards. www.bsr.org
- ILO Business and Social Initiatives Database. An exhaustive database of documents relating to CSR including standards, searchable by sector, country and type of initiative. <http://oracle02.ilo.org:6060/vpi/vpisearch.first>
- Maquila Solidarity Network Codes Resources. Compares major multi-stakeholder labor codes www.maquilasolidarity.org/resources/codes/index.htm
- OECD Codes of Corporate Conduct Inventory looks at 233 voluntary codes <http://www.oecd.org/ech/act/codes.htm>
- Private Initiatives and Labor Standards: A Global Look, ILO (1998) reviews 215 Codes and standards in relation to labor issues. <http://www.unglobalcompact.org/un/gc/unweb.nsf/content/ilostudy.htm>
- The SIGMA Standards Overview, Sigma Project (2001) gives an overview of 21 standards. www.projectsigma.org.uk
- U.S. Council for International Business Compendium of Corporate Responsibility Initiatives (2001). Outlines the 20 of the major international standards. www.uscib.org/docs/01_10_24_cr_compendium.pdf.

Social and Sustainability Reporting

An organization's public report be it annual accounts, community, social, environment or sustainability report – hereon referred to as "social and sustainability report" – reveals much about its priorities and values, its relationships with its stakeholders and the extent to which an issue is integrated into the way it does business. This part of the study analyzed corporate social and sustainability reports across the six domains of economic impact as evidence of the companies' corporate responsibility profile – in terms of what aspects are important to them and if/how they are measuring and reporting on these core economic development issues.

Corporate social and sustainability reporting has grown exponentially over the past few years. For example in its 1999 Social Reporting Report, the leading strategic consultancy SustainAbility Ltd.,²⁹ identified 31 companies involved in reporting. By the time of its 2000 Global Reporters Report, SustainAbility's "long list" of companies producing integrated social or sustainability reports totalled 202. In 2001, Next Step Consulting estimated that there were 1,000 reports in circulation.³⁰ The Global Reporting Initiative (GRI, forthcoming 2003) now calculates that at least 4,000 companies worldwide are engaged in some form of social and sustainability reporting.

A research instrument or diagnostic was developed to determine the extent to which a company includes the economic dimension of sustainable development in its public social or sustainability reports. For each domain, the diagnostic asked whether the report addressed economic development. If the answer was affirmative, then the research asked whether the company used input, output, or outcome indicators of performance for the particular process, and if so, what these were. Given that the GRI is the foremost framework in terms of social and sustainability reporting, the study also tracked the companies' use of the GRI Economic Performance Indicators in this respect. (*Annex III provides a descriptive list of these indicators*). The research also sought to discover whether companies are using outcome indicators, that is, do companies attempt to capture the perceptual outcomes of their economic interventions – in particular through stakeholder engagement.

With regards to the sample, a total of 68 social and sustainability reports from a variety of international organizations and sectors were analyzed. Companies were chosen for inclusion in the reporting survey based on:

- Top 50 reports from the UNEP/SustainAbility Ltd Global Reporters 2000/01.
- Short listed candidates from the ACCA/AccountAbility Social Reporting Awards 2001.
- A random selection of other contemporary reporters from various industry groups around the world.

The rationale was to examine reports both from "the best and the rest" of leading domestic and multinational companies.

Those that contained information relevant to this report tended to be those of European or North American origin. However, this may in part be due to corporate responsibility and reporting per se being a more mature phenomenon in these regions compared to others, or simply that as some would argue it is more of a Western phenomenon. For instance in 2001, Next Step Consulting calculated that approximately three quarters of all global reports were from Europe with one fifth from North America. (For a complete list of companies whose reports were analyzed refer to *Annex IV*).

The research used the current report of each company. Only one report per company was analyzed. Where companies published multiple reports, or published corporate responsibility reports in addition to annual reports, the research used in order of preference: social, sustainability environmental and annual reports. Where the date or publication was not immediately apparent from the report itself, telephone calls were made to the companies to ensure that the research was using the most current and appropriate report. The inclusion of a variety of different types of reports was necessary due to the fact that companies choose to report their responsibility to society using different means.

Figure 16a: Environmental, Social and Sustainability Reports by Sector

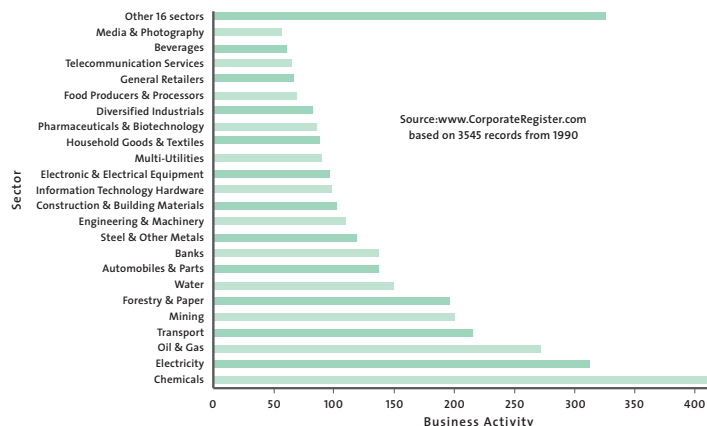
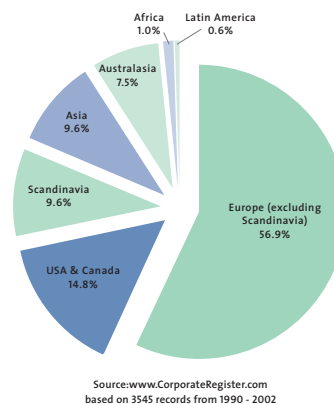


Figure 16b: Environmental, Social and Sustainability Reports. International Report by Region



Workshops, Consultations and Case Studies

Three workshops were organized sequentially in the U.K. and U.S.A., between January and March 2003. Firstly for companies; and secondly for advocacy organizations including the SRI community, standard setting bodies, pressure groups, government, trade unions and professional service providers. The purpose of these events was to engage a broad cross-section of opinion leaders in order to consult them on the preliminary results of the research, share learning, and invite participants to feed into planning for future phases of the ongoing work program.

Findings from the three workshops were supported by a number of email and telephone discussions, again with companies and advocacy groups alike.

Finally, select interviews were conducted with seven companies from different business groups and geographical regions to identify current and best practice in this area, and to help inform key conclusions and again prepare for the next steps arising from this initial study. These case studies provide a deeper understanding of the practical experiences across the seven domains of economic impact. The companies were:

Organization	Business Group	Countries of Operation
BAT	Retail	U.K., Kenya, Pakistan & Venezuela
Nike	Manufacturing	U.S.A. & Global
Novo Nordisk A/S	Pharmaceuticals	Denmark & Global
SABMiller	Manufacturing	South Africa
Shell International	Energy	Canada & The Philippines
Sydney Water	Utility	Australia
The Ford Motor Company	Transport	U.S.A.

Both the workshops and company interviews focused on why certain areas of business impact are of more importance than others, and how they are measuring, managing and reporting on economic performance.

Literature Review

In parallel with all of the above, the project team carried out a literature review in order to compare and contrast the approach used and subsequent results with contemporary work by others in this field. The initial review of relevant literature drew on discussions with the project team's network of contacts in academia, government,

What is Meant by Corporate involvement in Economic Development of the Community?

"The degree to which a company actively and constructively uses its resources to support the social and economic development of communities, through direct investments... or company policies that generate community capital, such as local sourcing, hiring, partnerships and education."

(Source: SustainAbility Ltd, Buried Treasure, 2002)

professional services and civil society. Principal focus here was given to studies that examine first why, and then what and how companies are managing, measuring, and reporting on their economic aspects of their sustainability impacts such as CSR Europe & AccountAbility (2002)³¹, Coalition for Environmentally Responsible Economies & Tellus Institute (2002)³², SustainAbility Ltd. and UNEP (2002)³³, SustainAbility Ltd, International Finance Corporation, and Instituto Ethos (2002)³⁴, SustainAbility Ltd. and GPC (2001)³⁵, The Sigma Project (2001)³⁶, the GRI (2001)³⁷, and Tuppen and Zadek for BT (2000)³⁸.

In addition, this preliminary reading examined how other studies (and initiatives like Business in the Community's PerCent Club³⁹) to date have begun to explore the role of the private sector in tackling poverty such as the Association of Accountancy and Business Affairs (2002)⁴⁰, Instituto Ethos (2001)⁴¹, International Business Leadership Forum (2003)⁴², The Copenhagen Centre and AccountAbility (2002)⁴³, BSR (2002)⁴⁴, ERM Social Strategies (2002)⁴⁵, New Economics Foundation (2002)^{46,47}, Overseas Development Institute (2002)⁴⁸, University of Swansea (2001)⁴⁹, the Ethical Trading Initiative (2002)⁵⁰, and the U.K. Department for International Development (2000, 2002)^{51,52}.

It is apparent from this initial literature review that the study of the connection between corporate responsibility and economic development is of great interest to civil society, government and professional services providers alike. Interestingly the literature shows that this raging debate is not a new phenomenon (University of Sheffield, 1999)⁵³, with one of its earliest recorded uses being by the U.S.-based academic Theodore J. Kreps in 1940 in the context of the severe economic depression in the U.S. in the 1930s (Zadek, Pruzan, and Evans, 1997)⁵⁴. Kreps argued that companies needed to take on, and report against, wider responsibilities. Also, in The Netherlands, a major steel producer, Hoogovens, undertook a social audit in 1969 as part of a collective bargaining agreement with trade unions. Similar initiatives followed in Sweden and Germany during the 1970s (Zadek and Raynard, 1995)⁵⁵.

However, further cataloging of studies to date shows that they have tended to adopt a narrow focus on either one of: domestic/developed (NEF 2002) or international/developing markets as it relates to poverty alleviation (IBLF 2002, ODI 2002, Ethos 2001); single domains/issues such as employment or tax avoidance (ETI 2002, AABA 2002); either one of frameworks for measuring, managing (Sigma 2001) and/or reporting (SustainAbility Ltd 2002); and the adoption of a backward-looking impact/outcome approach only (EME 2002, GRI 2001), as opposed to also prioritizing future business strategies as part of appropriate risk and opportunity management.

This study by BSR and AccountAbility in association with Brody Weiser Burns acknowledges and builds on this considerable body of work. The intention of this ongoing research program is to avoid the (sometimes self-imposed) "limitations" identified above by beginning to combine several streams of work in an integrated way. Precisely, the analysis of corporate responsibility standards, social and sustainability reporting, and case study interviews and interactive workshops – all based around a broad framework capturing the key domains of business impact as it relates to economic development – thus teasing out and crystallizing current thinking around the context and motivations that shape companies' approach to measuring, managing and reporting on their economic performance.

Appendix II – Coverage of Standards

This table provides an indicative list of standards many of which are referred to in this report. These are by no means all the corporate responsibility-related standards that exist, but they are illustrative of the various types of standards.

Full name of standard	Abbreviation	Further information
AccountAbility 1000 Series	AA1000S	www.accountability.org.uk
APEC Code of Business Conduct	APEC	www.apec.org
Amnesty International's Human Rights Guidelines for Companies	Amnesty	www.amnesty.org.uk/business/pubs/hrgc.shtml
Agence de Rating Social et Environmental sur les Entreprises	ASPI	www.arse-sa.com
Balanced Business Scorecard	BBS	www.balancedscorecard.org
Caux Principles for Business	Caux	www.cauxroundtable.org
Dow Jones Sustainability Group Index	DJSGI	www.sustainability-index.com/
EFQM Business Excellence Model	EFQM	www.efqm.org
ECCR/ICCR Benchmarks for Global Corporate Responsibility	ECCR/ICCR	www.web.net/~tccr/benchmarks/
Eco-Management and Audit Scheme	EMAS	www.europa.eu.int/comm/environment/emas
Ethical Trading Initiative Base Code	ETI	www.ethicaltrade.org
EU Eco-label criteria	Eco-label	www.europa.eu.int/comm/environment/ecolabel
Forest Stewardship Council's Principles and Criteria for Forest Management	FSC	www.fscoax.org
FTSE4Good Selection Criteria	FTSE4Good	www.ftse4good.com
Global Reporting Initiative Guidelines	GRI	www.globalreporting.org
IFOAM Basic Standards	IFOAM	www.ifoam.org
International Organization for Standardization ISO9000 & 14001	ISO9000/14001	www.iso.ch
Organization for Economic Co-operation and Development Guidelines for Multinational Enterprises	OECD	www.oecd.org/daf/investment/guidelines/
Social Accountability 8000	SA8000	www.sai.org
SIGMA Guidelines	SIGMA	www.projectsigma.com
Global Sullivan Principles	Sullivan	www.revleonsullivan.com
The Natural Step	TNS	www.thenaturalstep.org
UN Global Compact	UN GC	www.unglobalcompact.org
WHO/UNICEF International Code on Marketing of Breastmilk Substitutes	WHO / UNICEF	www.who.int/nut/documents/code_english.PDF

Appendix III – The GRI Economic Performance Indicators

Core Indicators	
Customers	EC1 Monetary amounts received and receivable by the reporter from customers for the sales of its products and services.
	EC2 Geographical breakdown of “key” markets by sales. Key markets are defined as greater than 25 percent turnover within any specific product range or where the reporter country sales represents greater than 5 percent of national GDP.
	EC3 Market share of products or product lines/ranges/services in “key” markets.
Suppliers	EC4 Monetary payments and payables by the reporter to suppliers for all goods, materials and services purchased.
	EC5 For “key” suppliers: percent of purchasing spent per supplier and main invoicing country. “Key” is defined as greater than 10 percent of total purchasing spent with a given supplier or where total reporter purchasing spent in a particular country represents greater than 5 percent of national GDP.
	EC6 Percent of contracts paid in accordance with agreed terms, excluding agreed penalty arrangements.
Employees	EC7 Monetary value of total remuneration to employees (including wages, pensions, and other benefits and redundancy payments) broken down by geographical region. Total remuneration should be refer to current payments and not include future commitments.
	LA7 Average hours of training per year per employee by category of employee (e.g. senior management, middle management, professional, technical, administrative, production, and maintenance) – This labor practices indicator also serves as a measure of economic performance for this aspect.
Funders	EC8 Interest on debt and common share dividend payments. Any arrears in preference dividends should be stated.
	EC9 ROACE (Return On Average Capital Employed).
Public Sector	EC10 Total sum of taxes paid broken down by geographical region.
	EC11 Subsidies received broken down by geographical region.
Indirect Economic Impacts	EC12 Describe the organizations indirect economic impacts. Indirect impacts tend to be highly specific to sectors or individual organizations. The appropriate analysis will depend strongly on variables such as the size and geographical spread of the company, and the nature of its operations, products, supply chain and customer base.
Additional Indicators	
Customers	EC13 Customer perception of how far relationship with reporting organization brings economic benefit.
Suppliers	EC14 Supplier perceptions of value of relationship with reporting organization in economic terms (e.g. improved productivity, increased human and intellectual capital).
Employees	EC15 Employee perception of value of relationship with reporting organization in economic terms.
Public Sector	EC16 Dollars of non-core business infrastructure development. This is infrastructure built outside of the main business activities of the reporting entity such as factory building, a school, or hospital for reporter employees and their family.

Appendix IV – A List of the Reporting Companies

The following table shows a list of the corporate responsibility reporting organizations to which the diagnostic has been applied.

Organisation	Business Group	Country
1. ABB	Engineering	Sweden/Switzerland
2. Abbey National	Financial Services	U.K.
3. Ahold	Retail	Netherlands
4. Anglian Water	Utility	U.K.
5. Aracruz	Forestry	Brasil
6. BAA	Transport	U.K.
7. Barclays	Financial Services	U.K.
8. BASF	Chemicals	Germany
9. Baxter	Pharmaceuticals & Health	U.S.A.
10. BBC	Media	U.K.
11. BC Hydro	Energy	Canada
12. Ben & Jerry	Manufacturing	U.S.A.
13. BG Group	Energy	U.K.
14. BMW	Transport	Germany
15. Body Shop Aus/NZ	Retail	Australia
16. BP Amoco	Energy	U.K.
17. Bristol-Myers Squibb	Pharmaceuticals & Health	U.S.A.
18. British Airways	Aviation	U.K.
19. BT	IT & Telecom	U.K.
20. Cable & Wireless	IT & Telecom	U.K.
21. Cadbury Schweppes	Manufacturing	U.K.
22. Camelot	Retail	U.K.
23. CIS	Financial Services	U.K.
24. Comtechsa	Construction	U.K.
25. Conoco	Energy	U.S.A.
26. Co-operative Bank	Financial Services	U.K.
27. Co-operative Group	Retail	U.K.
28. Dofasco	Manufacturing	Canada
29. Dow Chemical	Chemicals	U.S.A.
30. ESAB	Construction	Sweden
31. Eskom	Energy	South Africa
32. Ford Motor Company	Transport	U.S.A.
33. Fortum	Energy	Finland
34. General Motors	Transport	U.S.A.
35. Granada	Media	U.K.
36. Henkel	Pharmaceuticals & Health	Germany
37. HSBC	Financial Services	U.K.
38. IBM	IT & Telecom	U.S.A.
39. ING	Financial Services	Netherlands
40. Kirin	Manufacturing	Japan
41. Maleny Credit Union	Financial Services	Australia
42. Matushita Electric Gp	Engineering	Japan

Organisation	Business Group	Country
43. Metro AG	Retail	Germany
44. Nexfor	Construction	U.S.A.
45. Nike	Manufacturing	U.S.A.
46. Northern Ireland Electricity	Energy	U.K.
47. Novo Nordisk	Pharmaceuticals & Health	Denmark
48. Novozymes	Chemicals	Denmark
49. P & G	Manufacturing	U.S.A.
50. Premier Oil	Energy	U.K.
51. Renault	Transport	France
52. Royal Dutch Shell	Energy	Netherlands
53. J Sainsbury	Retail	U.K.
54. SBB	Transport	Switzerland
55. Siemens	IT & Telecom	Germany
56. South African Breweries	Manufacturing	South Africa
57. ST Microelectronics	Engineering	Italy
58. Statoil	Energy	Norway
59. Suncor	Energy	Canada
60. Talisman Energy	Energy	Canada
61. Total Final Elf	Energy	France
62. TXU	Energy	U.K.
63. Unilever	Manufacturing	U.K.
64. United Utilities	Utility	U.K.
65. Van City	Financial Services	Canada
66. Vodafone	IT & Telecom	U.K.
67. Volkswagen	Transport	Germany
68. WMC	Mining	Australia

Glossary⁵⁷

Accountability	Simply stated, accountability is the duty to provide an account of the actions for which one is held responsible. Hence, accountability is concerned with the relationships between groups, individuals, organizations and the rights to information that such relationships entail (definition drawn from AA1000).
Assurance	An evaluation against a specified set of principles and standards of the quality specified public reports, and the systems, processes and competencies that deliver the associated information and underpin the reporting organization's performance (definition drawn from AA1000 Assurance Standard – Consultation draft).
Code of Conduct	A formal statement of the values and business practices of a company and sometimes its suppliers. A code is a statement of minimum standards together with a pledge by the company to observe them and to require its contractors, subcontractors, suppliers and licensees to observe them. It may be a sophisticated document, which requires compliance with articulated standards and have a complicated enforcement mechanism.
Corporate Citizenship	Corporate citizenship is the management of the totality of relationships between a company and its host communities, locally, nationally and globally.
Corporate Governance	A set of relationships between a company's management, its board, its share holders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. (OECD Code – 1999).
Corporate Responsibility	Corporate responsibility or CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (drawn from European Commission Communication on CSR, 2002).
Economic Balance of Accounts	The net result of a company's positive and negative economic contributions to the company's significant communities.
Economic Impact	We broadly defined this term to mean 'any increase or decrease in employment or output and any increase or decrease in the productive potential of the economy'.
Engagement	The process of seeking stakeholder values on their relationship with an organization in a way that may be realistically be expected to elicit them.
Human Rights	Human rights are based on the recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family as the foundation of freedom, justice and peace in the world.
Management System	Management system refers to what the organization does to manage its processes, or activities. The larger the organization, and the more people involved, the more the likelihood that there are some written procedures, instructions, forms or records. This ensures that nothing important is left out and that everyone is clear about who is responsible for doing what, when, how, why and where.

Monitoring	The process of regularly collecting information to check performance against certain criteria.
Public Report	Information contained within a specific report published periodically to inform stakeholders about the organization's performance.
Screening	Inclusion or exclusion of stocks and shares in investment portfolios on social, ethical or environmental grounds.
Significant Community	A group of individuals bound by a common experience who affect, or are affected by, the business operation. This community may be bound by geographic proximity, historical relationship or common characteristic (eg ethnicity, gender, and disability etc).
Socially Responsible Investment (SRI)	Socially responsible investment combines investors' financial objectives with their commitment to social concerns such as social justice, economic development, peace or a healthy environment. (drawn from http://www.uksif.org).
Stakeholder	An individual, community or organization that affects, or is affected by, the operations of a company. Stakeholders may be internal (e.g. employees) or external (e.g. customers, suppliers, shareholders, financiers, the local community).
Standard	The term "standard" is used to describe a written document that seeks to influence behavior so that it is recognizable and reproducible in order to improve the social performance of the organizations to which it is applied. This includes both auditable standards as well as broad guidelines, codes of conduct, charters, investment screening mechanisms and benchmarks.
Sustainable Development	The concept of sustainable development was first popularized in the 1980's by the Brundtland Commission report "Our Common Future", which proposes that for development to be sustainable it should "meet the needs of the present without compromising the ability of future generations to meet their own needs".
Triple Bottom Line	The idea that the overall performance of a company should be measured based on its combined contribution to economic prosperity, environmental quality and social capital. (drawn from European Commission Green Paper on CSR, 2001).

- 1 Institute for Social and Policy Studies.
<http://www.ips-dc.org/reports/top200.htm>, Apr. 2003.
- 2 Institute for Social and Policy Studies.
<http://www.ips-dc.org/reports/top200.htm>, Apr. 2003.
- 3 USAID GDA. *Frequently Asked Questions*.
<http://www.usaid.gov/gda/faqs.htm>, Apr. 2003.
- 4 For further reading refer to Zadek, S. *Third Generation Corporate Citizenship*, Earthscan, 2001, London.
- 5 Zadek, S., and Tuppen, T. *Adding Values: the Economics of Sustainable Business*. BT, 2000.
- 6 Ibid.
- 7 Cornelius, O., Porter, M., et al. *Global Competitiveness Report*. London: World Economic Forum/Oxford University Press, 2002.
- 8 Bannock, G., Baxter, R. E. and Davis, E. *The Penguin Dictionary of Economics*. London: Penguin, 1987.
- 9 GRI, *Sustainability Reporting Guidelines*, 2002, Boston.
- 10 Forstater, M., Swift, T., Nacamuli, C., and Monaghan, P. *Mapping CSR Related Standards* AccountAbility, forthcoming.
- 11 GRI. *Integrated Indicators of Multidimensional Performance*. GRI-MWG Subgroup, 2001. [[AUTHOR: Provide location for GRI.]]
- 12 For further reading on the links between corporate responsibility and clustering refer to the publication Swift, T., and Zadek, S., *Corporate Responsibility and the Competitive Advantage of Nations*, 200, Copenhagen.
- 13 For further reading on the transformational change effects of social and sustainability reports refer to Rubbens, C., Monaghan, P., Bonfiglioli, E., and Zadek, S., *Impacts of Reporting*. CSR Europe and AccountAbility, 2002, Brussels. The charts depicted in Sections 2.3.2 and 2.3.3 of this document are in part inspired by this publication.
- 14 For further reading refer to Zadek, S. *Third Generation Corporate Citizenship*, Earthscan, 2001, London.
- 15 Survey conducted by Environics and Gallup for World Economic Forum; <http://www.weforum.org/site/homepublic.nsf/Content/Annual+Meeting+2003%5CResults+of+the+Survey+on+Trust>.
- 16 Zadek, S., Nacamuli, N., and Cohen, J., *The State of Sustainability Assurance*. London: AccountAbility, 2003.
- 17 Zadek, S., Sabapathy, J., Dossing, H., and Swift, T. *Responsible Competitiveness: Corporate Responsibility Clusters in Action*. Copenhagen Centre and AccountAbility, 2003, Copenhagen.
- 18 To date, the BSR research has shown that this strategy allows for flexibility in the metrics used to measure performance, but provides substantive process indicators that can be used across operations on a corporate-wide level. Further research will test the level of social and environmental outcomes that are produced through this process by working one-to-one with companies to help establish corporate-community economic strategies and through a convening of industry players to develop tools for guiding the engagement process.
- 19 *Politics and Persuasion: Corporate Influence on Sustainable Development Policy*, SustainAbility and GPC International (2001), London.
- 20 Zadek, S., and Tuppen, T. *Adding Values: the Economics of Sustainable Business*. BT, 2000.
- 21 War on Want. *Tax Havens and Tax Competition: One Rule for the Poor, No Rules for the Rich*. London: War on Want, 2002.
- 22 SANE News, Apr. 2003, 3(11).(Printed in South Africa.)
- 23 Murphy, R. *No Accounting for Tax Havens*. Association of Accountancy and Business Affairs, 2003, London.
- 24 *Corporate Responsibility Towards Society: A Local Perspective*. A report by Oxford Research A/S and AccountAbility for the European Foundation for the Improvement of Living and Working Conditions, Dublin, 2003.
- 25 For further information on how companies can address these challenges and create effective relationships with communities see the forthcoming *RECIPE for Dialogue: Effective Engagement with Indigenous Peoples*, published by Business for Social Responsibility, San Francisco.
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