



Business for Social Responsibility

# Reporting on Economic Impacts

A Report by  
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# 1. Purpose

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## Understanding company reporting experiences to inform the Economic Impacts section of the GRI

The 2002 Global Reporting Initiative (GRI) Sustainability Reporting Guidelines included a new set of Economic Performance Indicators designed to measure an organization's impacts on the economic circumstances of its stakeholders and the local, national and international economy. The purpose of this report is to consider how well these Economic Performance Indicators have been used and to make recommendations that inform the revision of the GRI Guidelines.

The GRI Guidelines are for voluntary use by organizations for reporting on the economic, environmental and social dimensions of their activities, products and services. By the end of August 2005, 714 organizations had referenced the GRI Guidelines in their reports, and of these 62 were published "in accordance" with the GRI Guidelines. Being "in accordance" signifies a high level of reporting and leadership in the field.

The "G3" GRI Guidelines Revision is the second major overhaul of the GRI Guidelines. An extensive structured feedback process is underway to gather stakeholder input and to issue an updated set of Guidelines in October 2006. Two multi-stakeholder Working Groups have been established to shape G3 – an Indicators Working Group and a Reporting as a Process Working Group. More information on G3 is available at [www.globalreporting.org/G3](http://www.globalreporting.org/G3).

BSR is involved in this revisions process through participation on both the Reporting as a Process Working Group and the Economics Advisory Sub-Group of the Indicators Working Group.

The objective of the Economics Advisory Sub-Group is to recommend changes to ensure the clarity, comparability and assurability of the GRI Economic Performance Indicators.

This report reviews how well the GRI Economic Performance Indicators have been applied by 33 companies and is intended to inform the work of the Economics Advisory Sub-Group.

We address the following dimensions of Economic Impact:

- Direct Economic Impacts
- Indirect Economic Impacts
- Local Economic Impacts

For each of these dimensions we set out findings and conclusions, implications for the revision of the Guidelines, and recommendations.

**Please note that the opinions expressed in this report are the views of BSR and are not necessarily those of BSR member companies.**

## 2. Setting the Scene

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### Creating a practical and valuable way of reporting on Economic Impacts

Definitions of sustainable development commonly comprise three dimensions – economic development, social progress and environmental protection. Achieving success over time in all three dimensions is the key to sustainable development.

However, in the context of organizational performance, the economic dimension of sustainable development is often taken to mean traditional measures of financial performance, such as revenue, profits and return on capital employed.

By contrast, the 2002 GRI Guidelines made the important step of asserting that economic performance “has a scope and purpose that extends beyond that of traditional financial indicators.” Economic impacts in the context of sustainability reporting focus “more on the manner in which an organization affects the stakeholders with whom it has direct and indirect economic interactions.”<sup>1</sup>

For example, a company may impact on the economic well being of employees or local communities, and through the sale of its products and services may impact on the productivity, competitiveness or growth of a national economy.

In short, the focus of economic impact is on how the economic status of the stakeholder can change as a result of the reporting organization’s activities – economic impact is not about changes in the financial health of the organization itself.

This change in economic circumstance is also important to understanding an organization’s social and environmental impacts. As Chris Tuppen and Simon Zadek wrote in *Adding Values*, “Economics is ... the process through which humans create social and environmental outcomes.”<sup>2</sup>

However, the 2002 GRI Guidelines also recognized that although financial performance indicators are well developed, indicators of economic performance are still evolving. For this reason the Economic Performance Indicators in the 2002 GRI Guidelines were considered a first attempt at measuring economic performance and it has been widely recognized that these indicators will evolve as learning develops.

**It is in this spirit of learning from real-life experience that BSR has researched and written this report.**

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<sup>1</sup> See Pages 45 and 46 of the GRI 2002 Sustainability Reporting Guidelines

<sup>2</sup> British Telecommunications, *Adding Values*, 2000

## Using the GRI Reporting Principles to inform reporting on Economic Impacts

The 2002 GRI Guidelines contained eleven “GRI Reporting Principles” designed to ensure that companies report complete and relevant information for stakeholders in a clear, balanced and timely manner. The GRI “views these principles as integral to its reporting framework, equal in weight to the elements and indicators in Part C of the Guidelines.”<sup>3</sup>

Our participation in the GRI Reporting as a Process Working Group has increased our appreciation of the critical role that the GRI Reporting Principles can play in the selection of issues and indicators to include in a report. With this learning in mind, we have integrated the GRI Reporting Principles into this research by considering how they might help in the selection of Economic Performance Indicators. We felt that the following GRI Reporting Principles were particularly useful:

- **Relevance** - Information in a report should cover issues and indicators that would substantively influence the decisions of the report user.
- **Sustainability Context** - The reporting organization should seek to present its performance in the wider context of sustainability needs where such context has significant interpretative value.
- **Balance** - The report should provide an even-handed and reasonable presentation of the reporting organization’s performance.
- **Comparability** - Information should remain consistent and be presented in a manner that enables the user to analyze changes in performance over time and performance with respect to other organizations.

Applying these GRI Reporting Principles would ensure that the most relevant economic impacts are covered, that impacts are considered in the context of wider economic issues, that the analysis of an organization’s economic impact is balanced and that comparisons can be made, both between companies and over time.

**We kept these GRI Reporting Principles front of mind throughout our research and when making our recommendations.**

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<sup>3</sup> See Page 22 of the 2002 GRI Sustainability Reporting Guidelines

### 3. Methodology

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BSR selected 33 reports to review from a cross-section of companies based on industry and geography. We used the most recent report from each company as of September 2005. Please note that many of these companies are members of BSR, though not all:

AstraZeneca	HP	Rio Tinto
BAA	IBM	SABMiller
Barclays	McDonald's	Shell
Bristol-Myers Squibb	Mitsubishi Corporation	Starbucks
BP	NEC	STMicroelectronics
BT	Newmont Mining Corporation	Toyota Motor Corporation
The Coca-Cola Company	Nike	Unilever
Co-operative Financial Services	Nissan Motor Company	UPS
Gap Inc.	Novartis	VanCity
GE	Novo Nordisk	Vodafone
GlaxoSmithKline	P&G	
	Panasonic/Matsushita Group	

In some cases we have reported statistics in the form of “X companies out of 33 have reported on...” These are illustrative within the group of companies we have selected and do not represent the characteristics of reports from the larger universe of international corporations.

We have also reviewed documents from other companies, communications to investors, research reports and websites when they have substantially addressed the concept of economic impacts. This is noted in the report where it has informed our analysis.

## 4. Direct Economic Impacts

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### What are the implications of how companies report on Direct Economic Impacts?

**Direct Economic Impacts** result from the flow of money between an organization and its stakeholders.

**Indicators of Direct Economic Impacts** are intended to show how the organization affects the economic circumstances of its stakeholders. These indicators tend to illustrate the scale of the relationship between the organization and its stakeholders, and provide the report user with a picture of where the money flows as a result of organizational activities.

For example, Indicators of Direct Economic Impact contained in the 2002 GRI Guidelines include:

- **Customers** – net sales (EC1) and geographic breakdown of markets (EC2)
- **Suppliers** – the cost of all goods, materials and services purchased (EC3) and the percentage of contracts paid in accordance to agreed terms (EC4)
- **Employees** – total payroll and benefits (EC5)
- **Shareholders & Creditors** – distributions to providers of capital (EC6)
- **Governments** – total sum of taxes paid (EC9)
- **Communities** – donations to community, civil society and other groups (EC10)

#### 4.1 Findings and Conclusions

The 2002 GRI Guidelines contained 12 Performance Indicators of Direct Economic Impact. Of these, some have been widely reported and have become standard disclosures, while others have clearly been either more challenging for companies to report on or considered not relevant to stakeholders.

We identified five main trends in the reporting of Direct Economic Indicators that should be considered when deciding how best to revise the Guidelines.

**Firstly, 6 out of 33 companies only included financial performance information and missed the point completely about accounting for the effects of monetary flows on the economic circumstances of stakeholders.**

Companies in this category tended to include excerpts from Annual Reports masquerading as information on the economic impact of the company. In effect they “checked the box” in their GRI index while not providing meaningful information.

**Secondly, 6 out of 33 companies (Novo Nordisk, Rio Tinto, SABMiller, Unilever, VanCity and Vodafone) included a “cash value added distribution” chart or table that “balanced” and was expressed in cash amounts or percentage shares.<sup>4</sup>**

The common methodology was to report the amount of revenues less payments to suppliers, then describe in cash amounts or percentage shares how the resulting cash value added was distributed. There were minor variations, but the categories included payments to employees, governments, investors, lenders, communities, and retained earnings. These tables and charts provide a sense of the scale of the monetary relationships between the organizations and their stakeholders and consequently provided an indication of the scale, distribution and nature of the organizations’ impacts on the economic circumstances of its stakeholders.

Novo Nordisk, as an example, included a table at the end of the Economic Footprint section of its 2004 Annual Report that lays out “cash value distribution” – i.e., how the company uses Sales less Cash payments as an amount and as a percentage, by category: Remuneration, Dividends and Interest; Taxes; Future Growth (R&D).

**Thirdly, 21 out of 33 companies provided indicators of monetary flow with stakeholders, but not in the form of a “cash value added distribution” chart or table that “balanced.”**

Examples of this included BT, GE, Newmont Mining Corporation, Novartis and UPS. These disclosures still achieved their objective of providing an indication of the scale, distribution and nature of the organizations’ impacts on the economic circumstances of its stakeholders.

Newmont Mining Corporation reported against most of the economic impact indicators in the GRI Content Index Review for the company’s 2004 report. The index presented all the GRI indicators and whether the company reported on it and the actual indicator itself, be it metric or narrative.

**Fourthly, many companies supplemented quantitative indicators of Direct Economic Impacts with qualitative commentary and analysis that proved critical to a complete understanding of the quantitative indicators.**

A good example here is provided by GE. Ben Heineman, GE Senior Vice President for Law and Public Affairs, describes the direct economic impact of the company as “successful and sustained economic performance ... GE’s economic growth, our profitability, our cash flow, our resulting financial structure and market capitalization serve [our] stakeholders in direct and vital ways, support the communities in which they live, and, to take it to the highest level, contribute to a stable and peaceful global economy.”<sup>5</sup>

For each group of shareholders, creditors, employees, retirees, customers and suppliers, the GE report characterizes the economic impact of the company. For example, “GE bears a critical responsibility to its retirees and to those who have vested benefits but have yet to receive them.

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<sup>4</sup> By “balanced” we mean that the income was equal to expenditure plus retained earnings, or that percentage shares added to 100%

<sup>5</sup> See page 5 of the GE 2005 Citizenship Report

In our principal pension plan, we have 205,000 retirees and beneficiaries, as well as 315,000 individuals who do not yet receive benefits. In addition to these 520,000 people to whom we owe a duty under our principal plan, there are 82,000 other participants in plans inherited from acquired companies. So, today, we are responsible for retirement payments to more than 600,000 people.”<sup>6</sup>

A further example is provided by Starbucks. Starbucks pays a premium price to suppliers for high quality coffee and awards economic benefits such as preferential buying status, higher prices and better contract terms to those suppliers that have demonstrated commitment to improving social and environmental practices and supply chain stewardship. The company also describes the economic benefit to its suppliers as increased security and ability to make investments for the long term; however, Starbucks also states that it purchases 2% of the global supply of coffee and that it cannot influence the entire market.

**Fifthly, 14 out of 33 companies made specific attempts to communicate their direct economic impacts in the context of wider economic issues and activities.**

A good example is provided here by Verizon, which placed some of its key economic performance indicators – such as payments to suppliers, and wages and benefits paid to employees – in the context of their share of economic activity. For example, wages and benefits were reported in total terms and also as a percentage of all U.S. wages and benefits in the trade, transportation and utility industry. Likewise, the company reported its total capital expenditure in absolute terms and as a percent of U.S. capital expenditures in the information processing equipment and software sector.

**The examples of GE and Verizon illustrate an important feature of meaningful disclosures: contextual information is critical to understanding a company’s direct economic impacts and the simple quantitative information currently required by the GRI Indicators of Direct Economic Impact, though necessary, are not sufficient on their own.**

## 4.2 Implications

The five trends we have identified through reviewing reports illustrate that the following GRI Core Indicators of Direct Economic Impacts are being increasingly used by companies to communicate their economic impacts:

- Net sales (EC1)
- Geographic breakdown of markets (EC2)
- Cost of all goods, materials and services (EC3)
- Total payroll and benefits (EC5)
- Distributions to providers of capital (EC6)
- Retained earnings (EC7)
- Total sum of taxes paid (EC8)

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<sup>6</sup> Ibid.

However, the following GRI Core Indicators of Direct Economic Impacts are used much less frequently, if at all:

- Percentage of contracts paid in accordance with agreed terms (EC4) - We found only two companies (Newmont Mining Corporation and BT) reporting on this indicator, and in the case of BT it was expressed using a different measure, the average number of days of outstanding invoices.
- Subsidies received (EC9) - None of the reports we reviewed disclosed this indicator, and evidence suggests that the indicator is not a feasible one for companies to collect or communicate.

The implications and significance of these findings for the revision of the GRI Guidelines can also be understood by considering the relationship between the indicators and the GRI Reporting Principles we identified at the start of this report – Comparability, Sustainability Context, Balance and Relevance. An important question to address is whether these existing Indicators of Direct Economic Impacts fulfill these principles and, to the extent that they don't, what innovations need to be made?

- **Comparability** – For those companies that disclose either balanced or non-balanced cash value added distribution tables or charts the indicators are largely comparable. For example, a report user can identify which companies or sectors distribute more cash to employees and which distribute less.
- **Sustainability Context** – Direct economic impacts are the channel through which organizations have their most significant social and environmental impacts, and for this reason these monetary flows provide great contextual and interpretative value in order to fully understand the organization's social and environmental performance. In this sense, the Indicators of Direct Economic Impacts are perhaps more important in fulfilling the Sustainability Context principle than the Comparability principle.
- **Balance** – The Indicators of Direct Economic Impact reported were generally not effective at meeting the Balance principle as monetary flows tended to be presented as wholly positive. However, this may change over time as year-on-year comparable data becomes available and report readers can understand which stakeholder groups have benefited most from revenue growth.
- **Relevance** – By indicating monetary flows with key stakeholder groups, it is hard to see how these disclosures can fail to meet the Relevance principle. However, reading the data presented in reports made it very clear that the GRI Economic Performance Indicator on donations to community, civil society and other groups (EC10) is significantly less relevant in this context and may belong elsewhere in the GRI Guidelines.

### 4.3 Recommendations

Three key questions for the Economics Advisory Sub-Group and Indicators Working Group to address are: 1) Which of the existing Indicators of Direct Economic Impacts should we retain? 2) For the indicators that we retain, how can they be improved? 3) What new indicators should we add? Our recommendations are based on our belief that the revised GRI Sustainability Reporting Guidelines need to be both shorter and more user friendly.

We make the following recommendations on which indicators to retain and which to remove:

- Retain the following Core Indicators: EC1, EC2, EC3, EC5, EC6, EC7 and EC8.
- Remove the following Core Indicators: EC4 (supplier payment) and EC9 (subsidies received)
- Remove the two Additional Indicators of Direct Economic Performance: EC11 (Suppliers by organization and country) and EC12 (Total spent on non-core business infrastructure)
- Move Core Indicator EC10 (donations) to the Social Performance Indicators section of the GRI Guidelines.

We make the following recommendations on the short descriptive guidance that accompanies each GRI Indicator:

- Alter the guidance to EC7 (retained earnings) to become: “This should include a summary of what these retained earnings are used for, such as Research and Development.”
- Remove the guidance to EC2 (geographic breakdown of markets), EC5 (total payroll) and EC6 (providers of capital), as these seem unnecessary.

Given the critical significance of qualitative analysis and accompanying narrative in understanding a company’s Direct Economic Impacts, we make the following recommendations:

- Introduce a new indicator requesting that these monetary flow indicators are accompanied by narrative analyzing and explaining the significance of the monetary flow for the economic circumstances of the organization’s stakeholders. This could be: “Description and analysis of the significance of monetary flows to the economic circumstances of major stakeholders.” This description should accompany indicators EC1 to EC8.
- Emphasize the importance of providing Indicators of Direct Economic Impacts within the Sustainability Report rather than referencing a separate document. Specifically, an Annual Report is about the financial health and performance of an organization, not its economic impacts, and should not be taken as a substitute for Indicators of Direct Economic Impacts.

## 5. Indirect Economic Impacts

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### What are the implications of how companies report on Indirect Economic Impacts?

**Indirect Economic Impacts** result from the activities of a company – such as employment, the sale of products and services, or the relocation of a business function – and produce changes in the economic circumstances of individuals, other organizations and the total economy. Indirect Economic Impacts include the Economic Multiplier Effect when the income and employment generated by the organization is in turn spent in the wider economy. Indirect Economic Impacts also include changes in behavior or economic capability, such as improvements in productivity, access to goods and services, and the economic effects of social and environmental activities (such as improved healthcare).

The 2002 GRI Guidelines do not include any specific **Indicators of Indirect Economic Impacts**. Rather, the Guidelines request that each organization select Indicators of Indirect Economic Impacts “based on their own analysis of the issues” and that Additional Indicator EC13 “identify major externalities associated with the reporting organization’s products and services.”<sup>7</sup>

#### 5.1 Findings and Conclusions

Our findings suggest that companies are reporting on two different types of indirect economic impacts.

The first is the Economic Multiplier Effect, when the income and employment generated by the company is in turn spent in the wider economy. The second is the economic impact (such as productivity, economic growth or improved access) that results from the sale and use of products and services.

**Twelve of the 33 companies have engaged this topic by describing or calculating the indirect effects of payments made by the organization to their main stakeholders, especially suppliers and employees.**

Many have done this by using standard economic impact methodologies, such as input-output models, to calculate the multiplier effect of their payments to different stakeholders as they circulate through the economy. The income multiplier concept provides a comparable measure of economic impact, especially when combined with a qualitative analysis of the specific nature of that company’s multiplier effect.

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<sup>7</sup> See pages 46 and 48 of the 2002 GRI Guidelines

As an example, McDonald's worked with Professor Dennis H. Tootelian from the Center for Small Business at California State University, Sacramento to develop a customized model for measuring the economic impact of McDonald's restaurants. The company's report included information on the indirect economic impacts of local stores in three states in terms of spending created and the number of jobs created.

BT also reported on the multiplier effect in the Economics section of the 2005 BT Social and Environment Report. Included in the analysis performed by DTZ Pineda Consulting on 2003 financial year data were the income and employment that resulted from supplier expenditure and capital investment.

These analyses of the multiplier effect illustrate that two stakeholder groups – employees and suppliers – are particularly important to an understanding of these indirect economic impacts.

For employees we found examples of the following indicators:

- Growth in the company's wages and benefits compared to growth in average wages and benefits (GE)
- Average base salary as a percentage of regional average base salary (Nike)
- Lowest wage as a percentage of minimum wage across geographies (Unilever)
- Number of dependents of employees (GE)
- Measures of workforce expansion and contraction, including:
  - Number of jobs reduced
  - Number of jobs created by insourcing supplier contracts
  - Rate of success of retraining and subsequent employment (Ford)<sup>8</sup>
- Business restructuring in terms of number of factories and people affected (STMicroelectronics)

For suppliers we found examples of the following indicators in reports:

- Number of jobs supported at the supplier (GE)
- Indirect multiplier effect of supplier expenditures – i.e. number of formal and informal jobs supported (The Coca-Cola Company)
- Number of jobs supported through expenditure by the supplier's employees (GE)
- Percentage of spending with minority suppliers by geography (P&G)

To summarize, the reporting on the Economic Multiplier Effect is being used by companies to report on the indirect economic impacts resulting from the expenditure and activities of their employees and suppliers.

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<sup>8</sup> See page 50 of the Ford 2003/4 Corporate Citizenship Report

**The reporting of Indirect Economic Impacts resulting from the sale and use of products and services varied considerably from sector to sector, with each industry having its own specific indirect economic impacts.**

This can be illustrated by examples from the Pharmaceutical, Information & Communication Technology (ICT) and Consumer Products sectors.

In the Pharmaceutical sector, a key economic issue is the access to medicines and the beneficial economic outcomes, such as a fit and healthy workforce that can result from this access. Pharmaceutical companies detailed their access programs for patients in strikingly similar ways – usually organized by therapy or disease – and included information about number of patients enrolled in the programs, geographic scope, and evolution of the programs over time. The economic impact of these programs was often described and always originated with the benefits of increased health and the resulting increase in the ability to participate in economic activities.

For example, AstraZeneca noted that its aim is “increasingly to include explanation of the economic, as well as the therapeutic, advantages of our products to ensure the full benefits and value of our medicines are understood.”<sup>9</sup> Bristol-Myers Squibb comprehensively described in both qualitative and quantitative terms its many access programs and cited the economic value of medicines over other treatments. It also describes its impact as extending and enhancing human life in terms of hundreds of millions of beneficiaries over the next five years.

Some of the indicators used by companies were:

- Number of participating patients (Novartis)
- Number of prescriptions filled (Bristol-Myers Squibb)
- Number of families affected (Bristol-Myers Squibb)
- Duration of programs (GlaxoSmithKline)
- Description of programs and geographic extent (Novartis)
- Cash savings to patients through discount programs (GlaxoSmithKline)
- Number of voluntary licenses issued to nonprofit organizations or public health agencies (GlaxoSmithKline)
- Number of preferentially priced agreements (GlaxoSmithKline)

ICT companies focused their discussion of economic impacts on the productivity gains resulting from the use of their products and services. For example, BT analyzes the use of ICT by companies to improve their own efficiency, which in turn has a significant impact on national level economic growth and productivity. BT bases this analysis not on the company’s own data but on reports published by the OECD: “For example, the OECD cites evidence that those sectors that have invested most in ICT – such as financial services, health, retail, business services, wholesale trade – have experienced more rapid growth in productivity than those who have not ... agriculture, mining and construction have benefited less from the ICT revolution.”<sup>10</sup>

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<sup>9</sup> See page 10 of the AstraZeneca Corporate Responsibility Summary Report 2004

<sup>10</sup> See page 2 of the BT Social and Environmental Report: Economics section

Vodafone describes a series of research studies that it commissioned into the economic impacts of mobile telecommunications on developing countries' economies and reached a number of conclusions, such as:

- Mobiles have a positive and significant impact on economic growth – as much as twice as large in developing countries as in developed countries.
- A developing country with an extra 10 phones per 100 people between 1996 and 2003 would have GDP growth 0.59% higher than an otherwise identified country.
- Mobile communications infrastructure is positively linked with increased Foreign Direct investment.
- Mobiles are often the only means of communication for small businesses. The proportion is highest for black-owned businesses in South Africa and informal sector businesses in Egypt.

As with BT's discussion of productivity, the quantitative data provided on Indirect Economic Impacts is not specific to Vodafone's activities; rather its purpose is to illustrate the economic impact resulting from all the companies in Vodafone's industry sector as a proxy for understanding Vodafone's specific impact. Critics may argue that this makes company-to-company comparisons difficult, but the BT and Vodafone approaches certainly do provide analysis essential to a complete understanding of their indirect economic, social and environmental impacts.

Other issues commonly covered in ICT sector reports include access to products and services (such as broadband), resource efficiency and tackling the digital divide. We also noted that water, electricity, energy and transport companies often made similar cases that their product and service innovations have positive influence on the cost efficiency and productivity of other organizations.

A few Consumer Products company reports provide some innovative indicators and analysis on the economic impacts resulting from the sale and use of their products. For example, Unilever describes the economic benefits to retailers and customers resulting from the provision of quality products, such as nutritional food and soap, at low and accessible prices. P&G described the effects that its water purification product had on access to clean water and reduction of disease.

The Coca-Cola Company includes a discussion of the economic impact it has on small retailers through the distribution of its products. According to descriptions in the report, the high visibility of the Coca-Cola brand acts as a draw for customers to small retail shops and the increased foot traffic increases sales volumes for small retailers.

Some of the indicators used included:

- Prices of products as a percentage of daily minimum wages (Unilever)
- Sales by geographic region as a percentage of total turnover for small unit packs (sachets) (Unilever)
- Percentage of products with a nutritional purpose (Unilever)
- Percentage of products sold through small retailers (The Coca-Cola Company)

Even though the 2002 GRI Guidelines contain only one unspecified additional Indicator of Indirect Economic Impacts (EC13), our research did find an increasingly rich, innovative and engaging analysis of indirect economic impacts by companies. We also found that discussions of indirect economic impact were of a higher standard the more recent the report, suggesting that the significance and nature of indirect economic impacts is increasingly well understood by companies.

## 5.2 Implications

In the absence of any GRI Indicators of Indirect Impact to assess, the implications of these findings for the revision of the GRI Guidelines can best be understood by considering the relationship between current practices and the GRI Reporting Principles we identified at the start of this report – Relevance, Sustainability Context, Balance and Comparability.

An important question to address is whether emerging company practices meet these Principles, and whether the learning from existing practice can be used to create new Indicators of Indirect Economic Impact.

- **Relevance** – Companies appear to be reporting increasing amounts of information on indirect economic impacts specific to their sectors. This suggests that the Relevance principle is being applied. Companies are choosing to report information – not included among the GRI Core Indicators – that is important to them, their sectors and their major stakeholders.

An important implication for the GRI to draw from this finding is that Indicators of Indirect Economic Impact should be given considerable attention as part of the GRI Sector Supplements. This will increase the relevancy of the Indicators and the likelihood of companies reporting on them.

- **Sustainability Context** – Of all the GRI Reporting Principles it is Sustainability Context that is being most richly fulfilled by an analysis of indirect economic impacts. It is here that companies are considering the relationship between their core products and services and broader sustainable development objectives, such as improved healthcare, reduced poverty, economic development and resource productivity. Companies are presenting their activities, products and services just as the Sustainability Context principle requests, “in the context of sustainability needs where such context has significant interpretative value,” and frequently with reference to broader sustainable development conditions and goals.
- **Balance** – As with the Indicators of Direct Economic Impact, companies were generally not effective at meeting the Balance principle and tended to report as if all economic impacts are good, giving little consideration to any negative consequences. There were notable exceptions. BT, for example, states head on that “economic growth in itself may entail trade-offs for society and the environment; not all growth is necessarily ‘good,’”<sup>11</sup> and includes a section discussing the positive and negative economic consequences of opening up new

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<sup>11</sup> Ibid.

facilities in India. Similarly, in the context of the company's rigorous compliance efforts, GE described the negative consequences associated with a failure in compliance. However, these examples were rare exceptions rather than common findings, suggesting that the revised GRI Guidelines will need to emphasize the importance of Balance in reporting indirect economic impacts.

- **Comparability** – This GRI Reporting Principle was the most difficult to address. It will always be challenging to produce comparable indicators of performance when reporting content that dominantly serves the purpose of meeting the Sustainability Context principle. The trends and issues reported by companies tended to be macro issues at the country, region or international level. It is much more difficult to derive comparable performance indicators of indirect economic impact at the level of the organization.

**However, we would not like to see this difficulty of meeting the Comparability Principle be taken as an excuse not to seek disclosures of indirect economic impact.** As this research shows, such disclosures are becoming increasingly critical to an understanding of a company's sustainability context and contribution to the wider societal goal of sustainable development. Contextual description and qualitative discussion of wider economic impacts are very helpful to report readers, even if they are not directly comparable from report to report or year to year.

### 5.3 Recommendations

With these findings, conclusions and implications in mind, we make the following recommendations:

- Indicators of Indirect Economic Impact should be a priority area for testing and development in the GRI Sector Supplements.
- Some new text should be introduced into the revised GRI Guidelines, either as further guidance to GRI Indicator EC13 (the organization's indirect economic impacts) or as a separate protocol to accompany GRI Indicator EC13. This could read as follows:

“Disclosures should include an analysis of the organizations impact upon economic issues of importance to stakeholders, such as:

- Productivity of organizations, sectors and of the economy
- Economic development in areas of high poverty
- Economic consequences of improved social or environmental conditions
- Availability of products and services for those on low incomes
- Enhancing skills and knowledge
- Foreign Direct Investment
- Economic impact of change in location of operations or activities
- Economic growth
- Economic impact of the use of products and services

In providing this analysis companies may reference available economic analysis and studies where these have significant interpretative value and provide an insight into an organization's indirect economic impacts.”

- Introduce a new Indicator on the economic multiplier effect. This could read: “Significant economic impacts when supplier and employee income generated by the organization is in turn spent in the wider economy.”
- Review the company-specific Indirect Economic Impact Indicators included in this report and include appropriate indicators in the Revised GRI Guidelines.
- Remove all reference to the term “externality” in the GRI’s description of indirect economic impacts. This term is rarely used in sustainability reports and is not conducive to an accessible, user-friendly set of GRI Guidelines.

## 6. Local Economic Impacts

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### What are the implications of how companies report on Local Economic Impacts?

**Local Economic Impacts** include direct and indirect economic impacts with a specific geographic scope, which may be at the local or regional level.

Although the GRI Guidelines have not to date explicitly included **Indicators of Local Economic Impacts**, we are including them in our analysis for three related reasons. First, companies in all industries are increasingly reporting information about and directed to specific communities in bounded geographical areas. For example, both BP and McDonald's produce country-specific reports that attempt to provide more relevant information to stakeholders in the context of sustainability needs specific to certain geographical areas. Second, many companies provided information in their organization-wide reports that was specific to certain geographies. Third, several of the direct economic indicators in the 2002 GRI Guidelines sought information that was segmented by geography.

#### 6.1 Findings and Conclusions

Companies have included significant discussion of local economic impacts, both direct and indirect, in their reports. The bounded and highly specific nature of local impacts has allowed companies to provide in-depth and useful information on this dimension of their economic impacts.

Here we set out some examples of approaches to reporting on local economic impacts before listing the implications of these approaches for the revision of the GRI Guidelines and making recommendations. Note that because local economic impacts include both direct and indirect impacts, there will be examples here of issues also discussed in earlier sections of this report.

The Coca-Cola Company reports on the local economic benefits of its operations using several quantitative measures. The Coca-Cola Company reports that "Our beverages are produced locally at 867 plants around the world, employing primarily local people and representing hundreds of millions of dollars in facilities, marketing and purchases from suppliers. We also contribute to local economies through taxes and the sale of our products through local and regional retailers....Independent studies have examined the impact of our business on economies and employment. Studies in emerging and developing economies in Asia, Africa and Eastern Europe have consistently documented the significant job multiplier effect of our business: Each direct job in our system indirectly generates or supports additional jobs in related businesses,

including suppliers and retailers. A 2004 study in South Africa found that one job creates 16 additional jobs in the country's informal retail sector."<sup>12</sup>

Nike commissioned a special study in 2004, which is referenced in its CSR report that examined the company's impact on the Oregon economy. "The impacts are estimated using widely accepted modeling techniques and are based on publicly available data and information provided by Nike. The analysis is divided into two broad categories: *economic impacts*, the effects of Nike's Oregon activities on employment, incomes and output in the state and local economies; and *fiscal impacts*, the revenues that the state and local governments and school districts receive from Nike and its full- and part-time employees and costs of providing government services to Nike and its full- and part-time employees."<sup>13</sup>

BP's strategy for reporting on locations includes giving contextual information. For example, the company produces location reports for Alaska, The Caspian, Germany, and Indonesia, among others. These reports feature sections describing the economic context that BP operates in and, though stopping short of describing the company's actual economic impacts, they do a good job of helping the reader understand the context of BP's operations and hence economic impacts.

Shell also provides location-specific reports that describe the economic context for the company's operations and the challenges of improving economic impact. For example, the company reports that in Nigeria "157 spills were caused by sabotage, mostly by communities seeking access payments and clean-up jobs. Poverty lies behind this practice. Ending it requires economic development and will take time."<sup>14</sup> This perspective underscores the interplay between environmental and economic performance.

The context for other companies can be quite different. Whereas relations with governments figure high for oil and gas companies, consumer products companies found poverty to be one of the most relevant issues at a local level. For example, Unilever partnered with Oxfam, Novib and Unilever Indonesia to explore the links between business operations and poverty reductions in Indonesia. The significant findings indicate that:

- Activities that arise from the distribution of Unilever products can have significant economic impacts.
- Multinational companies in the developing world, such as a foreign subsidiary of a United States-based company, can be highly embedded in and dependent upon national economic systems.
- Participation in supply chains, for example, by small farmers who grow ingredients for food products does not guarantee improvements in economic status if they do not earn enough income.
- Changing the terms over which a company can negotiate with suppliers can be a tool in poverty reduction.

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<sup>12</sup> See page 19 of The Coca Cola Company 2004 Citizenship Report

<sup>13</sup> See page 1 of "Nike's Impact on Oregon," <http://www.nikeinoregon.com>

<sup>14</sup> See page 16 of The Shell Report 2004

- Distributing value widely among stakeholders created broad tax bases for developing country governments.
- Jobs with multinationals offer poor people an opportunity to gain basic skills within a structured learning environment and to earn incremental regular income.
- Persistent focus on the position of the individual living in poverty is essential for developing sustainable poverty-reduction strategies.

Nissan Motor Company includes significant disclosures about its localized production facilities. It reports the location of production bases by country. The company describes its contributions to regions in terms of making investments, paying taxes, creating jobs, and creating business opportunities for suppliers. As a case study, it describes its Sunderland production plant in the United Kingdom, how long it has been operational, the number of employees who work there, the number of vehicles produced and its productivity rank against other plants. It also describes the economic context of that geographic region of the United Kingdom, which has experienced high unemployment rates as a result of declines in the manufacturing sector, and which therefore derives additional benefits from the presence of a Nissan production plant.

## 6.2 Implications

In the absence of any GRI Indicators of Local Economic Impacts to assess, the implications of these findings for the revision of the GRI Guidelines can best be understood by considering the relationship between current practices and the GRI Reporting Principles we identified at the start of this report – Relevance, Sustainability Context, Balance and Comparability.

- **Relevance** – Local Economic Impacts have a different interaction with the Relevance Principle than Direct or Indirect Impacts alone. The Relevance of economic impacts will clearly be high for the local community being discussed, but low or non-existent for other local communities or significant stakeholders. However, a good selection of local economic impact case studies to include in a report can provide an illustrative and helpful insight into the economic impacts that a company will have in other locations.

Companies also appeared to be applying the Relevance principle by focusing on their largest locations or locations with economic issues of most interest to significant stakeholders. For example, Nike disclosed its local economic impact in a comprehensive study of the company's impact on Oregon, where its global headquarters is located.

It was interesting to note that two countries of increasing interest to large companies in most sectors – China and India – were, with some notable exceptions, largely absent from the reports we reviewed. This suggests that some companies may be excluding locations of significant direct and indirect economic impact.

- **Sustainability Context** – At the local level there are plenty of opportunities to provide quantitative information on the relationship between a company's economic impacts and its contribution to sustainable development in that local community, for example, through job creation, taxes paid or infrastructure development.

- **Balance** – As with Direct and Indirect Impacts there is a danger that companies report as if all economic impacts are good and give little consideration to any negative consequences. This can especially be the case if a company selects locations that will reflect favorably on the company at the expense of locations that would not. That said, we did find examples of companies reporting mixed economic impacts at the local level – for example, a discussion of a plant closure by STMicroelectronics and an analysis of the economic challenges being faced by Shell in Nigeria.
- **Comparability** – Our research suggested that comparisons over time could be made when a company continues to report on the same locations year-on-year, allowing the reader to get a sense of progress over time.

### 5.3 Recommendations

With these findings, conclusions and implications in mind we make the following recommendation:

- Introduce a new GRI Additional Indicator on Local Economic Impacts. This could read: “Direct and Indirect Economic Impacts at largest locations and locations of significant interest to major stakeholders. Include a description of the local economic context and the most relevant economic impacts such as net sales, changes in employment, payroll and benefits, direct investment, taxes paid and income generated both upstream and downstream.”

## 7. About BSR

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### BSR partners with companies to improve CSR performance

Business for Social Responsibility (BSR) is a global membership organization that helps member companies achieve success in ways that respect ethical values, people, communities and the environment. BSR provides tools, training and advisory services to make corporate social responsibility (CSR) an integral part of business operations and strategies. A nonprofit organization, BSR promotes cross-sector collaboration and contributes to global efforts to advance the field of CSR.

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## 9. Reports Reviewed

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AstraZeneca	HP	Rio Tinto
BAA	IBM	SABMiller
Barclays	McDonald's	Shell
Bristol-Myers Squibb	Mitsubishi Corporation	Starbucks
BP	NEC	STMicroelectronics
BT	Newmont Mining Corporation	Toyota Motor Corporation
The Coca-Cola Company	Nike	Unilever
Co-operative Financial Services	Nissan Motor Company	UPS
Gap Inc.	Novartis	VanCity
GE	Novo Nordisk	Vodafone
GlaxoSmithKline	P&G	
	Panasonic/Matsushita Group	

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