

## Issue Management Tool

# Strategic challenges for business

in the use of corporate responsibility codes,  
standards, and frameworks

Prepared by AccountAbility for the WBCSD Accountability  
and Reporting Working Group

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World Business Council for  
Sustainable Development



**AccountAbility**  
institute of social and ethical accountability

## Issue Management Tool: *Use and Users*

This document has been developed in order to provide corporate members with a practical and user-friendly tool on a few key codes, standards and frameworks relevant to the sustainability agenda. Its purpose is to provide general information, a "snap-shot" of the landscape and a perspective from a think-tank/professional association focused on this topic. As these tools continue to evolve, we envision this as primarily a web-based publication that is easy to update.

This document is not a policy statement nor does it advocate any particular position or course of action. Like other WBCSD reports, the views expressed do not necessarily represent the views of every WBCSD member.

This pack provides a briefing on a group of leading standards.

It highlights:

- Latest **hot topics** in relation to each standard.
- The ensuing **strategic challenges** facing companies arising from the standard-setters or the market and possible actions they could take in response.
- A **factsheet** detailing origin, purpose, operationalization, rigor of obligation, and users etc.
- This pack is intended to be a living document. We intend to continually monitor and evaluate these codes.

## Decisions, decisions...

- How can a company best make strategic choices in the selection and use of leading corporate responsibility codes, standards and frameworks? What are the implications, now and in the near future, of complying with these voluntary or regulatory initiatives? How does a company determine whether or not alignment (or “signing-up”) will bring business value?
- To answer these questions, this report was prepared by AccountAbility for the WBCSD ‘Accountability and Reporting Working Group’. This publication is part of a broader learning module designed by the WBCSD and serves to inform and stimulate discussion rather than advocate any particular course of specific action.
- A small number of codes, standards and frameworks were selected for review. This sample group was not intended to be exhaustive, but to offer a spread across the different types of codes, standards and frameworks in terms of how they work and what themes they cover, which are currently being used by companies. (See chart in Background section below).
- AccountAbility as authors of this report are responsible for all views expressed here.
- The WBCSD will continue to explore these issues and facilitate a discussion around these challenges.

# Initiatives included

The list of codes detailed in this report is as set out below. The [order](#) is determined according to whether they are principle-based codes (e.g. Global Compact and UN Norms), overarching accounting and disclosure frameworks (e.g. GRI and AA1000 Assurance Standard), specialist standards (e.g. SA8000 and ISO14001), investor-related initiatives (e.g. DJSI), or regulatory-related (e.g. Sarbanes-Oxley).

**Global Compact**  
**UN Human Rights Norms for Business**  
**OECD Guidelines for Multinational Enterprises**  
**GRI Sustainability Reporting Guidelines**  
**AA1000 Assurance Standard**  
**SA8000**  
**ISO14001**  
**Dow Jones Sustainability Indexes**  
**Sarbanes-Oxley Act**

In referring to a framework, standard, or code we adopt a soft [definition](#) and mean ‘an initiative that seeks to influence behavior so that it is recognizable and reproducible in order to improve the sustainability performance of the organisations to which it is applied. This includes both auditable standards as well as broad guidelines, codes of conduct, charters, investment screening mechanisms and benchmarks’. This includes initiatives that are voluntary, statutory or mandated – and indeed some that are a combination of these (e.g. Sarbanes-Oxley is mandated statutory regulation).

## Matrix categorizing the codes

CODE	GOVERNANCE			LEGAL STATUS			GUIDANCE			PERFORMANCE		
	Business-led	Public-policy led	Multi-stakeholder led	Voluntary	Mandatory	Legal linkages	Broad policy	Formal guidelines	Technical spec.	Non-financial only	Links to financial	Forward-looking
UNGC			✓	✓			✓			✓		
AA1000			✓	✓				✓	✓		✓	✓
ISO	✓			✓				✓	✓	✓		
GRI			✓	✓				✓			✓	✓
OECD		✓		✓ <sup>1</sup>		✓		✓				
SA8000			✓	✓ <sup>2</sup>				✓	✓	✓		
Sarbanes-Oxley					✓	✓					✓	✓
DJSI	✓			✓					✓		✓	✓
UN Norms		✓			✓ <sup>3</sup>	✓	✓					

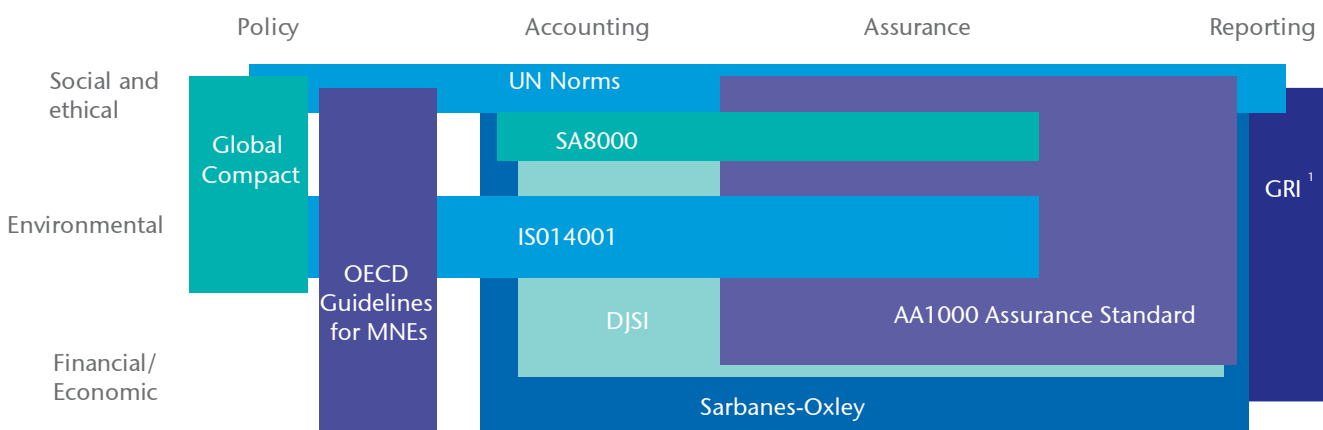
1 – Mandatory for 38 adhering governments but voluntary for companies.

2 – Compliance with local and national law is required for companies.

3 – A restatement of existing international law which is binding, but itself is not a Treaty but rather a UN document that makes recommendations on obligations for companies.

## How do different standards relate to each other (if at all)?

- The rapid maturing of the corporate responsibility and sustainable development field has also led to the emergence of numerous codes, standards and frameworks. These 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. But which ones are most useful for a company working in a different **context**? (ie industry group, geography, political or regulatory environment etc).
- To determine this, firstly one needs to understand **what** themes or issues (e.g. climate change, EH&S, or human rights?) they cover and then **how** they work in practice (e.g. aspirational principles or code of conduct, management system or a certification scheme, rating indices, or accountability and reporting framework?).
- And secondly determine **why** they are relevant in terms of how they relate to a combination of contextual factors that drive and shape an organisation’s approach, such as: legal or voluntary obligations, industry norm or individual company values, and core business functions.
- The below chart is based on earlier work by AccountAbility for WBCSD during 2003. As depicted, by simply illustrating which dimensions of sustainability and what **process steps** each of the standards cover, one can immediately understand where there is overlap (e.g. Global Compact and UN Norms), compatibility (e.g. GRI and AA1000 Assurance Standard) or gaps (i.e. the economic dimension of the so-called “triple bottom line”).



## Significance

- This international partnership brings together UN agencies, business, civil society and public sector organizations. Membership is based on a high-level commitment to its ten principles, derived from key UN and international declarations on labor, human rights, and the environment.
- The principles themselves are not new, but by bringing internationally accepted standards together and framing them as business commitments, the UN Global Compact has set a principle-based global benchmark for corporate citizenship.
- It is seen as one of the most significant institutions working to align business and sustainable development. But while more than 1,200 companies have signed up, including 200 large multinationals, very few major US companies have joined.



## Hot topic

- A major strength of the Compact has been its ability to work innovatively outside of the UN bureaucracy. The Compact is run from within Kofi Annan's team and has worked as a network without bureaucratic constrictions. However, the democratic deficit has also led to concerns. In response, a [multi-stakeholder Advisory Council](#) was set up in 2002 to provide guidance. It comprises members invited by Kofi Annan.

The [new 10th principle tackling corruption](#) illustrated some of these concerns :

- ✓ While the proposal was out for public consultation, there were questions as to the basis upon which the decision was to be made. It was adopted at the Compact CEO Summit in June 2004.
  - ✓ Members fear 'creeping' extension of the Compact coverage, leaving existing signatories stuck with added obligations in the face of the reputational damage of withdrawal.
- The UN Global compact is not a standards setting body, but uses its principles as the starting point for a unique global policy dialogue which enables different sectors to constructively engage at the highest level on issues concerning corporate citizenship and sustainable development. These dialogues have challenges that focus on specific themes including conflict management, HIV/AIDS and Transparency & Corruption.



- **The future of the Compact is uncertain because of the importance of Kofi Annan's personal championing.** The end of his tenure as Secretary-General in about two years time could have adverse implications:
  - ✓ Institutionalization of the Compact within the UN system could diminish its capacity for innovation.
  - ✓ Alternatively, the launch of the Compact as an independent agency would reduce its access to the UN's expertise and erode its credibility.
  - ✓ Given that the project is closely associated to Kofi Annan, the next Secretary-General may decide to prioritize other initiatives, leaving the Compact and its participants 'stranded'.
  
- **Both businesses and NGOs question the voluntary status of the Compact Principles.** Businesses fear on the one hand that the compact represents an underlying drive towards non-voluntary standards, in particular through its links to binding agreements between sovereign states. On the other hand there is a fear that being part of a high-profile 'open-access' initiative could associate them with disreputable companies. Leading NGOs and labor organizations continue to campaign for the obligations on signatories to be strengthened. (e.g. [web.amnesty.org/pages/ec\\_briefings\\_global\\_7April03](http://web.amnesty.org/pages/ec_briefings_global_7April03)).

## Strategic challenges

- **Greater business involvement in the governance of the Compact.** At present there is no clear basis in which participants can formally input into the decision making of the Compact.

### Possible Actions:

- ✓ Request clear statement from Compact of current governance arrangements, and intentions going forward.
  - ✓ Work to strengthen Advisory Board role.
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- Dealing with a change of Secretary-General which could threaten the credibility and long-term viability of the initiative.

### Possible Actions:

- ✓ Request elaboration by Compact of options for post-Annan period, and clear process and timetable for making decisions.





## AccountAbility opinion

- The Compact is a crucial contribution to the necessary global dialogue on key issues concerning corporate citizenship and sustainable development, and as such should be supported by the business community.
- The Compact's strength lies in its ability to convene business and other stakeholders around major policy issues, including how best to evolve the international dimensions of business responsibility in the future.
- The Compact's success to date has depended on its flexible network structure and leadership from the top. However, maintaining this approach going forward will be a growing weakness. It would be better to establish a clearer and more inclusive governance framework.

## Fact sheet

### Origin / rationale

- Announced at World Economic Forum (WEF) in Davos in 1999 and launched in 2000 at UN Headquarters in New York as a response to concerns about the adverse effects of globalization.
- Derived from Universal Declaration of Human Rights, Fundamental Principles of Right at Work, and Rio Principles on Environment and Development.

### Purpose

- Creation of a more sustainable and inclusive global economy by fostering a more beneficial relationship between business and societies, paying particular attention to the world's poorest people, through:
  - ✓ Making the Global Compact and its principles part of business strategy and operations around the world.
  - ✓ Facilitating cooperation among key stakeholders and promoting partnerships in support of UN goals.
- Seeks to add new dimensions to good corporate citizenship by creating a platform – based on universally accepted principles – to encourage innovative new initiatives and partnerships with civil society and other organizations.

### Governance / Institutionalization

- Network-based initiative of the UN Secretary General.
- At its core are the Global Compact Office, the Advisory Council and five UN agencies UNEP, ILO, UNHCHR, UNIDO and UNDP.
- Multi-stakeholder network involving relevant social actors such as governments, companies, labor, civil society organizations, and the United Nations.

## Funding

- Does not receive core funding from the UN as it is a network, not a traditional UN agency.
- Is not permitted to accept corporate donations.
- Voluntary contributions from national governments (e.g. Denmark, France, Sweden etc.) to cover core funding through a trust fund totaled US\$1.5 million by 06/2003.
- To secure further funding, it has been proposed to allow individuals to donate.

## Operationalization

- Purely a voluntary initiative.
- The Global Compact is freely available on a non-proprietary basis.
- Offers facilitation and engagement through several mechanisms:
  - ✓ Policy Dialogues.
  - ✓ Learning.
  - ✓ Local Networks.
  - ✓ Partnership Projects (e.g. Unilever will champion female entrepreneurs in India to try to eliminate discrimination (Principle 6) and empower women (Millennium Goal 6)).
- To assist users a suite of associated generic support tools are available such as a:
  - ✓ Primer.
  - ✓ Comprehensive guide.
  - ✓ Performance model.
  - ✓ Learning forum (in particular case studies submitted by signatories, year 2004 focuses on human rights).
- A 'resource handbook' is currently being developed for publication in mid-2004, which will include further clarification to that issued in August 2003 on the relationship and difference between the Compact, Millennium Goals, and new UN Human Rights Norms for Business.

## Rigor of obligation

- Not a regulatory instrument – it does not “police”, enforce or measure the behavior or actions of companies. However, use of the Compact image by signatories is restricted in accordance with ‘UN Business Guidelines’  
[www.un.org/partners/business/otherpages/guide.htm](http://www.un.org/partners/business/otherpages/guide.htm)
- Relies on public accountability, transparency and enlightened self-interest to initiate and share substantive action in pursuing the principles upon which the Global Compact is based.
- Designed to stimulate change and to promote good corporate citizenship and encourage innovative solutions and partnerships.
- To participate a company sends a letter from the CEO to the Secretary-General expressing support and is expected to:
  - ✓ Set in motion changes in operations so that the principles become part of strategy, culture and day-to-day operations.
  - ✓ Publicly advocate the Compact via communications vehicles.

- ✓ Publish in its annual report a description of ways in which it supports the principles.

### Users

- Primary target audience is individual businesses. Nearly 1,200 companies (such as ABB, Eskom, and Rio Tinto) signed up by 07/2003 (50% from developing countries and 30% SME's).
- Governments, civil society entities, trade union bodies, academia, and business associations participate as project or network 'partners'. These include for example Amnesty International, International Chamber of Commerce, and the International Confederation of Free Trade Unions.
- UN plans to report for the first time on its own progress in voluntarily adhering to the principles across two key functions, human resources and procurement.

### Further information

**Key document(s):** Guide to the Global Compact, How the Global Compact works, Global Compact Power Point Presentation

**Website:** [www.unglobalcompact.org/Portal/](http://www.unglobalcompact.org/Portal/)

**Contact:** [globalcompact@un.org](mailto:globalcompact@un.org).

## Remarks comments



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# UN Human Rights Norms

## Significance

- The Norms are a restatement of existing internationally-recognised standards of human rights that are **proposed as new obligations for business**.
- The Norms were presented to the full 53-nation human rights commissions for comment and ratification **between March/April 2004**.



## Hot topic

- **Can the UN resolve wildly divergent business-NGO thinking on the Norms?**  
Business and NGO concerns about the Norms could not be more different. Many in the business community such as the US Chamber of International Business ([www.uscib.org/index.asp?DocumentID=2729](http://www.uscib.org/index.asp?DocumentID=2729)) have voiced concern about the Norms being both confusing and unnecessary:
  - ✓ They draw on existing UN Conventions and related actions which they believe to be adequate.
  - ✓ They sense an underlying drive towards non-voluntary standards more broadly it raises the worry of burdensome legal disputes.
  - ✓ They believe there has been poor consultation with business by authors of the Norms at the University of Minnesota.
  - ✓ Possible conflicts with local law (which may be above or beneath the set baseline).
- By contrast, many organisations in civil society such as Amnesty International ([web.amnesty.org/library/Index/ENGIOR420052004?open&of=eng-398](http://web.amnesty.org/library/Index/ENGIOR420052004?open&of=eng-398)) have enthusiastically welcome the Norms:
  - ✓ They provide clear bearings by codifying existing conventions which apply to states and are relevant to companies
  - ✓ They address both positive (e.g. promoting respect) and negative (e.g. violations) aspects of human rights compliance
  - ✓ They offer a benchmark or 'roadmap' against which companies can gauge their performance (e.g. Business Leaders for Human Rights Initiative – see below).
- **Business Leaders for Human Rights**. In response to business concerns, notably those of the USCIB, the former UN High Commissioner for Human Rights, Mary Robinson, cited that a group of leading companies, chaired by herself and led by the Respect Group in Europe, were already road testing the Norms ([www.eginitiative.org/documents/fintimes.html](http://www.eginitiative.org/documents/fintimes.html)). Participants include Novo Nordisk A/S and The Body Shop International.



## Strategic challenges

- A dilemma is responding with constructive feedback on the *implementation* of the Norms without being branded by NGOs as not pro-human rights.

### Possible Actions:

- ✓ Seek assurance from the UNHCHR on the quality of any future process for consultation concerning implementation (e.g. cross-sectoral consensus).
- ✓ Request clarification from UNHCHR on the provision of practical guidance to companies on the practical use of UN Conventions in human rights.

## AccountAbility opinion

- Whilst it is not certain, it is possible that the Norms will be ratified. AccountAbility would welcome any *effective* initiative – voluntary or mandatory – that leads to greater organisational accountability.
- The ‘success’ of the Norms to date has been built on a firm base of outreach drawing on *consensus amongst leading NGOs*. Perceived weaknesses relate to *how the Norms have been presented to the business community*, with leading trade associations, notably USCIB strongly disapproving of the process as much as the ‘it’.
- In order to build support amongst the business community going forward, should ratification follow, the *UNHCHR must re-engage companies* offering practical guidance and cases drawing on the work of the BLHRI and beyond.

## Fact sheet

### Origin / rationale

- For many years numerous NGOs and some companies have been asking for existing standards on human rights to be pulled together in one place.
- Draft Norms adopted unanimously on 13th August 2003 by the UN Sub-Commissions on the Promotion and Protection of Human Rights (26 experts elected by the UN Commission on Human Rights).
- Developed by the working group chaired by Prof. Weissbrodt (at University of Minnesota, USA), the draft code is a “non-voluntary” set of obligations that would partly transfer responsibility for protecting human rights from national governments to companies.

### Purpose

- To offer a single document in which all the existing international human rights principles applicable to businesses are gathered. Restatement of existing internationally-recognized standards of human rights that are relevant to business.
- Create a new international legal framework, cutting across virtually every area of business operation, with companies, rather than the governments that negotiated them, responsible for implementing international treaties and conventions.



- That human rights become part and parcel of the whole corporate citizenship process, i.e. communication, target setting, compliance monitoring, auditing, bonus systems.

### **Governance / Institutionalization**

- The 53 member states on the UN Commission on Human Rights reviewed the draft for the first time at the last Commission meeting in March 2004, but no decision was made as to whether or not to approve the Norms. Further consultation and dialogue is to follow.

### **Funding**

- As the UN Commission on Human Rights has not ratified the Norms yet, there is no funding.

### **Operationalization**

- Norms outline a range of obligations and specify that:
  - ✓ Business should establish internal structures and contract clauses to ensure compliance, and will be obliged to provide reparations to any party affected by non-compliance.
  - ✓ States maintain the primary responsibility to protect and promote international human rights and shall create the necessary legal and administrative framework to ensure implementation.
- Implementation procedures for businesses would require companies to:
  - ✓ Incorporate the draft norms into an internal code of conduct.
  - ✓ Apply the norms throughout the company's entire supply chain.
  - ✓ Agree to periodic monitoring by national, international, governmental, and non-governmental mechanisms.
  - ✓ Conduct periodic evaluations of the company's impacts on human rights.
  - ✓ Pay reparations to anyone affected by failures to comply with the norms.
  - ✓ Creation of a panel of experts to receive and investigate complaints against companies.
- The Norms document is not a formal treaty under international law, thereby triggering binding legal obligations; as "soft law" the Norms do however provide companies with a morally authoritative code of conduct which goes beyond the notion of voluntary and should be seen as a template which corporations can use to set standards.

### **Rigor of obligation**

- The Norms are not currently binding although are expected to form the basis for a binding document in the near future.
- The Norms contemplate monitoring by existing UN (and other) mechanisms as well



as by any mechanisms to be created in the future. Until future bodies are created or charged with the responsibility to enforce the Norms, the Sub-Commission and its Working Group on Transnational Corporations are equipped to receive and process information regarding corporate compliance with the Norm.

### Users

- As the Norms are still under development, there are no users yet.
- However a Business Leaders Initiative on Human Rights was launched in Europe. The 7 Participants include ABB, Barclays, MTV Europe, National Grid Transco, Novartis, Novo Nordisk, and The Body Shop International.

### Further information

Key document(s): University of Minnesota – Human Rights Library

**Remarks**  
comments



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## Significance

- The OECD Guidelines for Multinational Enterprises are the closest **thing we have to an comprehensive global corporate code of conduct**. It is a key reference point of international norms for business.
- While the Guidelines are **non-binding on businesses**, adhering **governments are committed to promoting them** and to making them influential among companies operating in or from their territories.



## Hot topic

- **The Guidelines have emerged as one of the most comprehensive benchmarks for codes on corporate responsibility.** Despite criticism from business that they are too general to be useful, and from NGOs that they recommend ‘minimal social and behavioural practices’ the Guidelines are the only comprehensive and multilaterally agreed corporate responsibility standard and are supported by governments and trades unions. Following the revision of the Guidelines in 2000 they have become an increasingly prominent benchmark for corporate responsibility. Increasingly, leading companies including Philips, Intel, Imperial Tobacco, and Roche publicly acknowledge the Guidelines and use them as a basis for their own business principles.
- **The Guidelines are non-binding for companies, but there are increasing moves to link them to trade subsidies and other incentives.** Dutch companies have to state that they comply in order to receive export credit guarantees. French enterprises have to sign a letter saying that they are aware of the Guidelines. Trade unions in the Czech Republic, Finland and Sweden are pushing their governments to link export credits to the guidelines. Other NGOs and trades unions want the Guidelines to be referenced in bilateral investment treaties between adhering and non-adhering countries and in European Union treaties. The Guidelines have been used in connection with shareholder resolutions in Canada and the US.
- **The Guidelines provide a normative framework but there is no practical guidance.** For the Guidelines to be useful in practice, it is essential to understand how they link with more operational standards such as the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.
  - ✓ During January 2004 in Paris, the OECD had its first formal consultation with the Office of the UN Global Compact about the addition of a proposed new 10th Principle by The Compact.
  - ✓ The GRI has published a users guide to the OECD Guidelines which highlights the ways in which it can be linked to GRI reporting.



## Strategic challenges

- The OECD Guidelines are an established part of the global architecture of standards for business and it is likely that they will continue to be incorporated into more formal regulatory frameworks and incentives. Civil society organizations and trades unions are also preparing to make more use of the National Contact Points to report breaches of the guidelines.

### Possible Actions:

- ✓ Businesses cannot ignore the OECD Guidelines, and should consider using them as a minimum benchmark standard for their own policies and operations worldwide.
- The need to understand linkages between different standards and norms. The OECD guidelines offer an externally legitimized overarching code of practise which is being taken up as a benchmark by many companies. It is essential to understand its linkages with other established standards such as ISO14001 and new initiatives such as the EITI (Extractive Industry Transparency Initiative) or the UN Norms.

### Possible Actions:

- ✓ Companies involved in the development of business-led and independent standards initiatives can encourage coherence with the OECD guidelines.
- ✓ BIAC (the Business and Industry Advisory Committee to the OECD) is well placed to produce guidance on linkages with other codes.

## AccountAbility opinion

- The OECD Guidelines are an established part of the global architecture of standards for business.
- The strength of the guidelines lies in their legitimacy and support from governments and trades unions and in their international network of National Contact Points to facilitate dispute resolution.
- As a multilaterally agreed standard the OECD Guidelines are extremely slow to change, and should therefore be viewed as a minimum benchmark upon which other specialist standards can be built. Compliance with the OECD guidelines is certainly necessary but not sufficient to meet the needs of either businesses or their stakeholders.

## Fact sheet

### Origin / rationale

- One part of the OECD Declaration on International Investment and Multinational Enterprises, a broad political commitment adopted by the OECD Governments in 1976 to facilitate foreign direct investment (FDI) among OECD Members. Subsequently revised in June 2000.
- Designed to prevent misunderstandings and build an atmosphere of confidence and predictability between business, labor, governments and society as a whole. It is the ‘only multilaterally endorsed and comprehensive code that governments are committed to promoting’.
- To produce internationally agreed instruments, decisions and recommendations to promote “rules of the game” in areas where multilateral agreement is necessary for individual countries to make progress in a globalized economy.

### Purpose

- To help multinational enterprises (MNEs) operate in harmony with government policies and with societal expectations.
- To promote the positive contributions multinational enterprises can make to economic, environmental and social progress. ([www.oecd.org/about/0,2337,en\\_2649\\_34889\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/about/0,2337,en_2649_34889_1_1_1_1_1,00.html)).

### Governance / Institutionalization

- The Organization for Economic Co-operation and Development (OECD) was founded in 1961, replacing the Organization for European Economic Co-operation.
- The OECD groups 30 Member countries in an organization that, most importantly, provides governments with a setting in which to discuss and develop economic and social policy, in line with the mission and role set forth in the OECD Convention.
- OECD Committee on International Investment and Multinational Enterprises (CIME) is responsible for overseeing the functioning of the Guidelines. With active relationships with some 70 other countries, NGOs and civil society, it has a global reach.
- Expresses the shared values of the 37 countries that have adhered to them (30 OECD members and 7 non-member countries) and covers economic and social issues such as trade, development and education.

### Funding

- The OECD is funded primarily by assessed and voluntary contributions from its Member countries, within the framework of a biennial ‘Program of Work and Budget’. As at end 2002, this totaled approximately US\$413 million. ([www.ois.oecd.org/olis/2003doc.nsf/43bb6130e5e86e5fc12569fa005d004c/6941b9c47d9751c7c1256cec005b7fa1/\\$FILE/JT00141914.DOC](http://www.ois.oecd.org/olis/2003doc.nsf/43bb6130e5e86e5fc12569fa005d004c/6941b9c47d9751c7c1256cec005b7fa1/$FILE/JT00141914.DOC)).
- The scale of contributions are proportional to the size of the countries’ economy (with a floor of 0.1% and a cap of 24.975%).

## Operationalization

- Voluntary principles and standards for responsible business conduct in such areas as human rights, disclosure of information, anti-corruption, taxation, labor relations, environment, and consumer protection.
- The governments of the countries adhering to the Guidelines agree to promote their implementation by enterprises operating in or from their territory.
- The institutional set-up for promoting implementation of the Guidelines is described in an OECD Decision and its Procedural Guidance. It consists of three main elements:
  - ✓ the National Contact Points.
  - ✓ the OECD's Committee on International Investment and Multinational Enterprises.
  - ✓ the advisory committees of business and labor federations, BIAC and TUAC, respectively, and NGOs.
- The facility exists for interested parties to call a company's alleged non-observance of the Guidelines' recommendations to the attention of the National Contact Point (NCP). An example includes NGO allegations of child labor in a leading sporting goods company's outsourcing operations in India brought to the attention of the Netherlands NCP. ([www.oecd.org/dataoecd/52/38/2958609.pdf?channelId=37443&homeChannelId=37361&fileTitle=Policy+Brief%3A+The+OECD+Guidelines+for+Multinational+Enterprises%3A+A+Key+Corporate+Responsibility+Ins+...](http://www.oecd.org/dataoecd/52/38/2958609.pdf?channelId=37443&homeChannelId=37361&fileTitle=Policy+Brief%3A+The+OECD+Guidelines+for+Multinational+Enterprises%3A+A+Key+Corporate+Responsibility+Ins+...))
- Business compliance with the Guidelines is voluntary, although the Guidelines are adopted by national governments who sign an agreement to implement the guidelines and promote them within their countries.

## Users

- Multinational Enterprises from the OECD group of 30 member countries plus Argentina, Brazil, Chile, Estonia, Israel, Lithuania and Slovenia ([www.oecd.org/document/58/0,2340,en\\_2649\\_2349370\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/58/0,2340,en_2649_2349370_1_1_1_1,00.html)).

## Further information

Key document(s): OECD Guidelines for MNE's

Website: [www.oecd.org](http://www.oecd.org)

Contact: [webmaster@oecd.org](mailto:webmaster@oecd.org), Tel: +33 1 45 24 82 00

Remarks  
comments



## Significance

- The Global Reporting Initiative (GRI) Sustainability Guidelines are the **first attempt to develop a generalized set of sustainability indicators** for organizations.
- It has become the **main point of reference** for companies that produce sustainability reports, although **only a minority are able to claim their reports are 'in accordance'** with the Guidelines.
- The Guidelines' development is **influenced by companies** through a structured dialogue process and the GRI's multi-stakeholder governance process.
- The GRI has **well developed linkages** with other standards within an emerging 'global architecture'. (e.g. AA1000 Assurance Standard, UN Global Compact, etc.)



## Hot topic

- **The GRI provides a generalised reporting format** which gives guidelines and boundaries to the process of sustainability reporting. There is a tension, however, between the need for materiality-based reporting and the desire for a generalised reporting format. Can a generic set of indicators keep up with changing issues and stakeholder concerns?
  - ✓ The GRI has attempted to address this through sector and issue specific supplements. However, this also raises fears of an ever growing list of indicators.
- **The business case for reporting remains unclear.** There is a push towards companies producing sustainability reports, and the GRI Guidelines have emerged as the 'only game in town' in terms of specifying what these reports should cover. However, the balance of costs and benefits of comprehensive reporting in accordance with the GRI remains unclear.
  - ✓ Costs of implementation of reporting per se are sometimes significant, and once a company commits to the format it is difficult to withdraw.
  - ✓ One of the key selling points of GRI reporting is comparability and the ability for stakeholders to use it to create an instant index of performance. However, it is yet to be shown to what extent stakeholders are taking advantage of this benchmarkability.
  - ✓ GRI indicators are end-point measures which are not designed for management purposes – two sets of accounts are necessary; one for reporting and one for day-to-day management.

- A generalised reporting format needs to link into operational standards and management systems. The GRI has made steps to clarify its linkage to other leading standards as part of a push to develop consensus on a new global architecture for managing corporate responsibility:
  - ✓ AccountAbility and the GRI are working closely to facilitate harmonization between sustainability reporting and assurance.
  - ✓ The GRI works in co-operation with UN Secretary-General Kofi Annan’s Global Compact. GRI reporting by companies is accepted as meeting all the terms of the Compact commitment.
  - ✓ The GRI has published a users guide to the OECD Guidelines for Multinational Enterprises to facilitate companies integrating them with GRI reporting.

## Strategic challenges

- The GRI Guidelines provides an established guidance for sustainability reporting. New stock exchange listing requirements, reform of company law, as well as ongoing NGO and investor pressure all point to an ever increasing demand for data disclosure on non-financial performance.

### Possible Action:

- ✓ Even if companies are not aiming to be ‘in accordance’ with the GRI they cannot ignore the Guidelines in considering issues and indicators to be included or excluded from their reporting.
  - ✓ Companies can choose to aim for reporting ‘in accordance’ with GRI guidelines, but this is a significant commitment.
  - ✓ Companies may use the GRI guidelines to inform their own reporting style and content.
- Linking a reporting process for sustainability with internal management and an understanding of the issues that are material to their business. What is the best way to meet both business needs and stakeholder demands for data?

### Possible Actions:

- ✓ GRI indicators can be used with stakeholder consultation to determine the materiality of issues.
- ✓ Work with the GRI to develop relevant sector and issue supplements.

## AccountAbility opinion

- The Guidelines are a crucial contribution to **mainstreaming transparency** in sustainability performance.
- The GRI's strength lies in its **ability to develop consensus** amongst business, trade unions, governments and NGOs around a common reporting format and its **development of linkages with other key standard**.
- The GRI's success to date has depended on it providing an **attractive framework for companies that were already heavily committed to sustainability reporting**. Wider uptake will depend on it being able to demonstrate a business case for such comprehensive reporting for other companies and in particular to **enabling companies to meet the demands for materiality-based reporting**.

## Fact sheet

### Origin / rationale

- GRI was launched in 1997 as a joint initiative of the U.S. non-governmental organization Coalition for Environmentally Responsible Economies (CERES) and United Nations Environment Program with the goal of enhancing the quality, rigor, and utility of sustainability reporting.
- Creation of a disclosure framework for voluntary use by organizations reporting on the economic, environmental, and social dimensions of their activities, products, and services as response to concerns that sustainability reports lacked a similar framework making comparability difficult and decreasing usefulness to reporters and report users.

### Purpose

- To support global progress towards sustainable development, it is intended that the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines will become the generally accepted, broadly adopted, worldwide framework for preparing and communicating information about organizational sustainability performance.

### Governance / Institutionalization

- Developed by the Global Reporting Initiative (GRI) which became an independent organization in 2002, with global headquarters in Amsterdam.
- A multi-stakeholder Board of Directors has fiduciary, financial, legal, and overall strategic responsibilities for GRI. The Secretariat coordinates and implements the Board's plans and advisory groups' work.
- Broadly representative advisory groups on policy (the Stakeholder Council) and technical issues (the Technical Advisory Council) ensure that the GRI's core values of inclusiveness and transparency are sustained.

## Funding

- Before 2002 charitable foundations (e.g. Ford Foundation, Rockefeller Brothers Fund) and various UN organizations (e.g. United Nations Foundation) provided almost all funding.
- As at end 2002 the revenue base of the GRI was US\$1.77 million
- As from start 2003 it launched a new long-term resource base (refer to Business plan 2003-2005 at [www.globalreporting.org/about/BusinessPlan.pdfm](http://www.globalreporting.org/about/BusinessPlan.pdfm) and list of funding sources at [www.globalreporting.org/about/funding.asp](http://www.globalreporting.org/about/funding.asp)). This comprises:
  - ✓ Patrons i.e. one-off donations of over US\$60,953 (e.g. Heineken, KPMG Sustainability, and United Nations Environment Program).
  - ✓ Benefactors i.e. smaller one-off donations, (e.g. BHP Billiton, Philips Electronics, Suncor Energy, and Telecom Italia).
  - ✓ Organizational Stakeholders i.e. annual fee structure from business, civil society advocacy organizations, labor, foundations, and governments (e.g. Shell, PwC, Rabobank Groep, AICC, and ABB Ltd).

## Operationalization

- Purely a voluntary initiative.
- Freely available on a non-proprietary basis.
- The Guidelines provide principles, reporting elements and performance indicators for report content and recommend general information for all sector-specific data to be disclosed and propose a uniform format for report presentation.
- To assist users a suite of associated generic support tools are available such as Sector Supplements, and Technical Protocols.
- Individuals or organizations can sign up as stakeholder and as such become an element in GRI's governance structure and the foundation for sustaining the GRI as an open, democratic and global institution. As such an organizational stakeholder agrees to:
  - ✓ Actively promote GRI's mission.
  - ✓ Participation in the GRI process – both governance and ad-hoc activities.
  - ✓ Undertake GRI-based reporting within 3 years after registration for business organizations and 5 years for others.

## Rigor of obligation

- Companies using the Global Reporting Guidelines are not obliged to notify GRI as it is a voluntary non-proprietary initiative.
- Recognizes varying levels of reporting experience, GRI provides flexibility in how organizations use the Guidelines. Options range from adherence to a set of conditions for preparing a report `in accordance´ with the Guidelines, to an informal approach.
- The decision to report `in accordance´ with the Guidelines is an option, not a requirement and self-declared by the company.
  - ✓ Report on the numbered elements in Sections 1 to 3 of Part C.

- ✓ Include a GRI Content Index as specified in Section 4 of Part C.
- ✓ Respond to each core indicator in Section 5 of Part C.
- ✓ Ensure that the report is consistent with the principles in Part B.
- ✓ A set statement signed by the board or CEO.

GRI does not fully audit self declared 'in accordance' reports.

### Users

- 418 company users in 43 countries.
- 19 companies are 'in accordance with' (e.g. BT, Diageo, Ford, General Motors Cooperation, Novo Nordisk and SAB Miller).

### Further information

Website: [www.globalreporting.org](http://www.globalreporting.org)

Contact: [info@globalreporting.org](mailto:info@globalreporting.org), Tel: +31 20 531 00 00

Remarks  
comments



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## Significance

- A part of the AA1000 Series, the AA1000 Assurance Standard is the first assurance standard that covers the full range of an organization's disclosure and performance.
- It aims to meet the needs both of investors and regulators with those of other stakeholders by integrating stakeholder engagement with rigorous metrics and public reporting into a cycle of planning, auditing, accounting, reporting and assurance.
- It provides a basis for dealing with non-financial reporting requirements and an expanding basis for understanding material risk.
- The standard's development is influenced by member companies through a structured dialogue process and the core standard is backed up by guidance and practitioner notes based on ongoing practical experience.



## Hot topic

- **Is assurance for sustainability reports necessary?** While sustainability reporting is growing and a significant minority of companies are using independent assurance, many others remain unconvinced about the extent to which assurance is necessary, and if so what kinds of assurance will meet company and stakeholders needs. A key driver is `investors' need for reliable non-financial information material to company performance – that goes beyond simple data-checking approaches. The AA1000 approach to assurance is forward-looking and materiality-orientated, it is focused not on end-of-pipe fact checking but on providing timely and reliable information relevant to decision making.
- **Can AA1000 provide a common platform for sustainability management?** Across a company's sphere of impacts, some issues require an audit level of assurance, for others a review level is all that is possible at this stage. AA1000 aims to enable organisations to integrate their management of performance, impact and risk across the wide range of interconnected issues and relationships. The AA1000 Assurance Standard is designed to be compatible with specialised standards which cover key areas of performance (such as SA8000), or processes (such as the GRI Sustainability Reporting Guidelines). These linkages had been implicit and left for individual companies and assurance providers to develop. They are now being made clearer:
  - ✓ AccountAbility and the GRI are now working closely to facilitate harmonisation between sustainability reporting and assurance, and make the two mutually reinforcing.

- ✓ AccountAbility is also working with other leading standard-setting bodies. Including the British Standards Institute to develop SIGMA, a sustainability management system.

- AA1000 challenges traditional models for determining the scope of responsibility. It establishes a basis for determining scope and materiality that is not solely within the control of either the company or their assurance provider, but which is determined by reference to stakeholders concerns and established norms. This is controversial, and makes the standard a hard choice for companies to commit to because of its apparent open-endedness. However, there is a trend toward expanding requirements for non-financial reporting and the need to understand risks beyond the traditional bounds of materiality (e.g. UK's proposed Operating and Financial Review – see Strategic Challenges).

## Strategic challenges

- The AA1000 Assurance Standard provides a quality benchmark and a practical system for sustainability assurance, however, it is challenging and sometimes more involved and costly than data accuracy only models of assurance.

### Possible Actions:

- ✓ The increasing number of companies that are addressing their sustainability impacts in management and public disclosure cannot avoid the issue of assurance.
- ✓ Companies may choose assurance which only attests to the accuracy of reporting – this provides some rigour and credibility but does not answer questions of materiality.
- The traditional limited-scope approach to considering the materiality of issues is being challenged on all sides – by legislation such as the US Sarbanes-Oxley Act and the UK's proposed Operating and Financial Review, by litigation, and by the need to better understand and manage risk and opportunities.

### Possible Actions:

- ✓ Use of the AA1000 Assurance Standard provides a practical option for companies to manage and understand performance and risk beyond the traditionally accepted boundaries of materiality. Evidence of use suggests that it advances the quality of assurance without imposing a 'compliance regime'.
- As an open-source standard AA1000 is flexible but also vulnerable to misuse, since there is no clearly established 'in accordance' model and the development of international capacity to accredit trainers and certify practitioners remains underdeveloped – this undermines its credibility for users and stakeholders.

Possible Actions:

- ✓ Member companies and other stakeholders are able to influence and contribute to the development of the standard and its supporting structures in these and other crucial areas through AccountAbility's governing council and technical committees.

## AccountAbility opinion

- The AA1000 Assurance Standard provides practical guidance for ensuring the quality of sustainability assurance which focuses on the underlying management systems that enable performance.
- AccountAbility's strength lies in its ability to draw on ongoing practical experience from standard users and service providers to develop guidance.
- There is a danger that the A1000 Assurance Standard will become the 'Betamax of sustainability standards' – technically advanced but beaten in the marketplace by cheaper and more ubiquitous options.

## Fact sheet

### Origin / rationale

- First initiative offering a non-proprietary, open-source Assurance Standard covering the full range of an organization's disclosure and associated sustainability performance.
- Developed through an international multi-stakeholder consultation process.

### Purpose

- To promote accountability for sustainable development in order to secure the quality of sustainability accounting, auditing and reporting.

### Governance / Institutionalization

- Continually under development by AccountAbility, an international, not-for-profit, membership-based professional institute established in London in 1996.
- Governed by an international multi-stakeholder Council, drawn from its membership base, which includes representatives from business, not-for-profits, consultancies and academia who provide strategic guidance (e.g. African Institute of Corporate Citizenship, BT, Nike, PricewaterhouseCoopers, and WBCSD).
- The Operating Board has legal responsibility for AccountAbility's activities. Members of the Board are nominated by Council and elected every year at the AGM.
- A Technical Committee was formed in 2002 to oversee the development of the AA1000 Series.

## Funding

- AccountAbility's standards program of work is funded from a variety of sources. Total funding for end 2003 was US\$300,000 (equivalent to about 20% of AccountAbility's annual income). This comprises:
  - ✓ 40% from foundations (e.g. Esme Fairburn and The Ford Foundation).
  - ✓ 45% from business and service providers (e.g. Novo Nordisk A/S and PricewaterhouseCoopers).
  - ✓ 10% from NGOs (e.g. Business in the Community).
  - ✓ 5% from Governments (e.g. UK Department for Trade and Industry).

## Operationalization

- Purely a voluntary initiative
- Freely available on a non-proprietary basis.
- Centered on the three AA1000 Principles: Materiality, Completeness, and Responsiveness, which are underpinned by the concept of "Inclusivity".
- Invites organizations to apply the process-based AA1000 Principles within all aspects of core business functions, from planning and accounting through to reporting and assurance.
- To assist users a suite of associated generic support tools are available such as Guidance Notes and Practitioner Notes etc.

## Rigor of obligation

- No direct control over the use of the AA1000 Assurance Standard exists, due to the non-proprietary nature.
- There are plans to introduce an "In accordance with" option.
- Professional development program certifies individual internal and external practitioners.

## Users

- AA1000S is used worldwide by a variety of organizations such as:
  - ✓ Businesses (e.g. BT, Guardian Newspapers Limited, SABMiller, Novo Nordisk, Canon, Newmont Mining Corporation ).
  - ✓ Service providers (e.g. Bureau Veritas, Ernst and Young, KPMG, Ashridge, PricewaterhouseCoopers and SGS).
  - ✓ NGOs (e.g. Traidcraft and CORE).
  - ✓ Public bodies (e.g. UK Department of Trade and Industry, Australian Department of the Environment and Heritage).
  - ✓ Advocacy groups (e.g. Ethical Investment Research Service, and IRRC).

### Further information

Key document(s): AA1000 Assurance Standard, Materiality Guidance Note, Practitioner Notes

Website: [www.accountability.org.uk](http://www.accountability.org.uk)

Contact: [secretariat@accountability.org.uk](mailto:secretariat@accountability.org.uk), Tel: +44 207 549 0400

**Remarks**  
comments



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## Significance

- SA8000 is the **first global certification system for supply chain labor standards**. It is now being put into practice with around 350 production facilities so far certified.
- It is a **voluntary standard based on ILO Conventions, linked to UN norms** and overseen by a multi-stakeholder forum. It has **strong support from the international trade union movement**.
- It is significant both as an **example of a stand-alone certification solution** for managing aspects of corporate responsibility and as a global certifiable standard which is delivering auditable compliance both for manufacturers and purchasers in the supply chain.



## Hot topic

- **Integration with internal business management processes is a key challenge.** SA8000 has succeeded in developing the code, audit procedures and training for verifiers (including collaborative training with trade unions and NGOs) to enable rigorous compliance auditing at factory level. However, for companies at the retailing end of the supply chain the key question is whether such a system is able to enable necessary changes both within the manufacturer and along the supply chain. For companies with leverage in the supply chain (and reputations to protect) credibility and effectiveness require integration of supply chain labor standards issues into day-to-day management.
  - ✓ A joint reporting tool between the Global Reporting Initiative and Social Accountability International (SAI) is currently being developed in association with SustainAbility Ltd.
  - ✓ Initiatives such as that of Otto Versand and the German export retailers association are examples of efforts to develop integrated supply chain management processes using SA8000 as a base.
- **SA8000 has succeeded in developing a recognized brand and a market for labor standards certification.** However, there has been little take-up so far by mass market retailers, one key issue for such companies is the confusion. Another issue is the question of who pays. Many multinationals are beginning to demand certifications, yet also require low prices – how can this conundrum be addressed?
  - ✓ Increased demand from retailers could create a critical mass of certified facilities in which SA8000 certification becomes industry standard. Commitments such as that of the German clothing catalogue Otto Versand to use SA8000 are significant.
  - ✓ Alternatively, SA8000 may remain a niche product but provide a quality benchmark for companies undertaking their own code compliance processes.
  - ✓ SA8000 is working together with other key labor standards initiatives (including the Fair Labor Association and the Ethical Trading Initiative) to explore convergence between these different code compliance approaches.



## Strategic challenges

- SAI (along with other initiatives such as the Fair Labor Association and the Ethical Trading Initiative) have demonstrated that **codes of conduct can support Freedom of Association**. In countries where independent worker representation is restricted the system promotes incremental change, encourages communication between workers and managers, and creates space for workers to protect their rights and interests.
- SA8000 already provides a **quality benchmark** for rigorous and professional supply chain auditing.

### Possible Actions:

- ✓ Even if they do not use it, companies can not ignore the SA8000 system. It provides a useful practical model and an external challenge to the legitimacy and effectiveness of their own supply chain systems. For example, it makes the argument that ‘freedom of association is a matter for government’ difficult to defend and provides practical examples of how to deal with this issue.
- **Integration is the key challenge**, both for companies which use the system and those who may find that their suppliers increasingly do.

### Possible Actions:

- ✓ If SA8000 can successfully be integrated with GRI reporting it will become more useful as a credibility management tool and could be considered by more companies.
- ✓ Initiatives such as that of Otto Versand which build on the strength of SA8000 training and tools but integrate them with internal management processes demonstrate one approach.

## AccountAbility opinion

- The SA8000’s strength lies in the support of major trade unions and NGOs and its focus on compliance with ILO and other international conventions on human rights.
- Its success to date has been in its work in building rigorous verification systems and training programs to develop the competencies of facility managers and auditors.
- However, take-up by retailers, which ultimately drives the market for certification, remains low. A key factor in developing the systems’ credibility will be its ability to integrate SA8000 processes with internal management systems and enable change within the supply chain not just at site facilities.

## Fact sheet

### Origin / rationale

- To complement government regulation and national labor legislation in an attempt to address the difficulties of verifying labor conditions in the production chain of suppliers.
- Derived from international workplace norms in the ILO conventions and the UN's Universal Declaration of Human Rights and the Convention on Rights of the Child.

### Purpose

- To provide an international voluntary consensus-based workplace standard for retailers, brand companies, suppliers and other organizations to maintain just and decent working conditions throughout the supply chain ([www.sa-intl.org](http://www.sa-intl.org)).
- To provide a credible, comprehensive and efficient tool for assuring humane workplaces.

### Governance / Institutionalization

- In 1996, SAI convened an international multi-stakeholder Advisory Board to develop Social Accountability 8000 (SA8000).
- SA8000 is governed by SAI's Board of Directors which have established a 'SA8000 Advisory Board'. Members of the Advisory Board are drawn from business, NGOs, trade unions, socially responsible investors, and government such as Amnesty International, BVQI, Chiquita, and the International Textile, Garment & Leather Workers Federation.
- SAI is a nonprofit organization that was incorporated in Delaware, USA, in 1997. Pursuant to corporate law and SAI's articles of incorporation it must be managed by a Board of Directors that has fiduciary responsibility for general management of the business affairs of SAI.

### Funding

- SAI's funding from foundations (20%), companies (20%), national governments and UN agencies (60%) totaled over US\$2.0 million for 2003.
- The list of grantors include the Ford, Rockefeller / McArthur Foundations, CIPE, and the US State Department.

### Operationalization

- Purely a voluntary initiative.
- To assist users Guidance Documents are available.
- There are two options:
  - ✓ Certification to the voluntary consensus-based SA8000.
  - ✓ Involvement in the Corporate Involvement Program (CIP). The two CIP levels provide companies with the tools they need to go from evaluation to implementation to external communication.
  - ✓ Training.



## Rigor of obligation

### ■ Certification

- ✓ Internal assessment of compliance to SA8000.
- ✓ Changes to conditions, policies and management systems as required by the standard.
- ✓ Assessment audit or also known as Pre-Audit.
- ✓ In order to maintain its certificate, the facility must undergo a full certification every three years. In addition, there will be surveillance audits every 6 to 12 months depending on the auditors' view on performance and compliance with the standard.

As SAI's social accountability system approach is based on transparency, credibility and verification, the certification of compliance can only be obtained from organizations accredited by SAI (e.g. BVQI and SGS).

### ■ Accreditation process

- ✓ Office audit: office review and interview with staff.
- ✓ Witness audit: observation of auditors conducting SA8000 audits
- ✓ Periodic re-evaluation: surveillance audits.
- ✓ Accreditation is valid for three years, and then the organization can apply for re-accreditation.

Accrediting verifiers rests with SAI Accreditation Review Panels which include members of SAI's multi-stakeholder Advisory Board. Responsibilities of the Panels include reviewing any challenges to determinations of SAI regarding the accreditation of verifiers.

## Users

- SA8000 is in use by businesses and governments alike around the world.
- As at end 2003, there were approximately 350 certified facilities in 38 countries across 36 industries.
- Examples of organizations with certified facilities include: Amana SA, Avon, Co-op Italia, Cutter & Buck, Dole, Eileen Fisher, Otto Versand, Tex Line.

## Further information

Key document(s): SA8000 – official English version

Website: [www.sa-intl.org/AboutSAI/AboutSAI.htm](http://www.sa-intl.org/AboutSAI/AboutSAI.htm)

Contact: [info@sa-intl.org](mailto:info@sa-intl.org), Tel: +1 212 684 1414

Remarks  
comments



## Significance

- ISO 14001 is **one of the most widely adopted standards** in the ‘corporate responsibility’ area. It is well recognized as an international standard for environmental management.
- An **ISO management system standard on CSR has been proposed**. Given ISO’s success in developing international standards and its worldwide recognition and infrastructure, many believe that such a standard if developed could become the industry standard on CSR.



## Hot topic

- **ISO 14001’s is useful but limited:**
  - ✓ It is a procedural management tool which measures the efficiency in which policies are put into practice. It is relatively cheap to implement, adding some costs but helping to clarify processes, however, it is not very useful in identifying emerging issues and developing ongoing policy.
  - ✓ It is best suited for site-based assessments of manufacturing facilities within the context of large organizations. It is not able to deal with marketplace and supply chain impacts, or for higher level decision making.
  - ✓ It is designed to feed into cycles of continuous improvement through incremental adjustment towards targets, it does not contribute to learning, innovation and discontinuous change.
- **An ISO CSR standard is proposed.** This has received mixed reactions, with some welcoming ISO’s ability to provide clarity, standardization and comparability in the area and its international recognition and market clout. Others, both in business and NGO communities, fear that ISO would be overextending its expertise and legitimacy to attempt to create a global CSR standard.

## Strategic challenges

- **Will ISO develop the ‘definitive’ CSR management system standard?** While ISO 14001 is useful but limited, it can play a part in overall corporate responsibility management.

### Possible Actions:

- ✓ Wait for the development of an ISO CSR standard. ISO’s technical consensus model is likely to take a long time to develop and be unable to deliver where it matters – in managing the contested, controversial and changeable issues relating to company’s overall social, environmental and economic performance.



- ✓ If an ISO CSR standard is developed, it is possible that it will become a key standard due to the industry recognition of the ISO model. The dilemma for companies and CSR practitioners will be whether to contribute to its technical development (and thus endorse it) or to leave it to develop on its own and risk losing the ability to influence what may become a serious challenger.
- ✓ One option would be to push for ISO type standardization in specific areas of social and environmental impact where a sufficient degree of consensus and stability develop.

## AccountAbility opinion

- ISO14001 has been highly successful in achieving **high levels of recognition in industry**.
- ISO 14001 certification can play a part in a business approach to sustainable development, **but it is not sufficient in itself to deliver against either business or stakeholder concerns**.
- Its strength lies in its **ability to clarify management processes** to put environmental policy into practise, it is less good at dealing with contested and emerging issues.
- The ISO approach is **not suited for an integrative model of corporate responsibility which requires learning and discontinuous change**.

## Fact sheet

### Origin / rationale

- Produced as a response to the need for organizations to improve their environmental performance, increase the use of pollution prevention, and improve compliance.
- Developed through a voluntary consensus-based approach where each member country develops a position on the standards which is then negotiated with other member countries.

### Purpose

- To specify the actual requirements for an environmental management system against which an organization can be certified by a third party.

### Governance / Institutionalization

- Developed in 1996 by the International Organization for Standardization (ISO), a network of the national standards institutes of 148 countries, based in Geneva.
- ISO standards are developed by Technical Committees comprising experts on loan from the industrial, technical and business sectors which have asked for the standards, and which subsequently put them to use.



## Funding

- The operational expenditure for the ISO work is estimated at US \$109 million per year. Of this 80% is financed directly by 37 member bodies managing specific standards' development projects, and 20% through member body subscriptions and publications income, covering the costs of the Central Secretariat ([www.iso.ch/iso/en/aboutiso/isoinfigures/January2004-p1.html](http://www.iso.ch/iso/en/aboutiso/isoinfigures/January2004-p1.html)).

## Operationalization

- Purely a voluntary initiative.
- Not freely available and the auditing body records an organization's certification in its client register.
- Not an environmental performance standard.
- Specifies the requirements for an Environmental Management System (EMS), which then may be independently certified by an accredited body (more below).
- Requires that a community or organization implement a series of practices and procedures following the Deming cycle of "plan, do, check, act".
- 14014 provides guidance on the implementation of an EMS conforming with ISO 14001.
- To assist users, a toolkit has been developed that comprises a set of documents that takes an organization, task by task, through:
  - ✓ Monitoring and measurement
  - ✓ Operation control
  - ✓ Legal requirements
  - ✓ Emergency preparedness
  - ✓ Training

and many other requisite topics and issues ([www.iso-14000.net/iso14001-tasks.htm](http://www.iso-14000.net/iso14001-tasks.htm)).

## Rigor of obligation

- In order to obtain an ISO 14001 certificate the organization's management system must be independently audited and confirmed as being in conformity with ISO 14001:1996. In order to maintain the certificate the company has to repeat the external certification every three years.
  - ✓ Initial review of the significant environmental aspects.
  - ✓ Implementation of an EMS conforming with the ISO 14001
  - ✓ Assessment audit or also known as Pre-Audit, after the EMS is up and running for approximately 6 months.
  - ✓ In order to maintain its certificate the facility must undergo a full certification every three years.
- ISO itself does not assess the conformity of an organizational management system to ISO 14001 standard and consequently does not issue certificates. However, ISO controls the use of its logo.



- Accreditation bodies, independent from ISO, have been established in order to evaluate the competence to carry out ISO 14001 certification in specific business sectors of currently 720 “certification” or “registration” bodies active nationally or internationally. ([www.iso.ch/iso/en/info/ISODirectory/intro.html#](http://www.iso.ch/iso/en/info/ISODirectory/intro.html#)).
- The ISO 190011 provides information to Environmental management system audits in order to obtain information about the performance of the EMS.

### Users

- As of end 2002, nearly 49,462 ISO 14001 certificates had been awarded to organizations in the private and public sectors alike in 118 countries or economies. ([www.iso.ch/iso/en/iso9000-14000/pdf/survey12thcycle.pdf](http://www.iso.ch/iso/en/iso9000-14000/pdf/survey12thcycle.pdf)).
- Examples include Deutsche Telekom, Eskom, and Novozymes A/S.

### Further information

Key document(s): ISO 14001 Library

Website: [www.iso.ch](http://www.iso.ch)

Contact: Tel: +41 22 749 01 11

Remarks  
comments



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# Dow Jones Sustainability Index

Dow Jones  
Sustainability  
Indexes

## Significance

- The Dow Jones Sustainability Index was the first index to try to assess the ability of businesses to create long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.
- Its methodology looks for the 'best in class' in specific sectors. It is forward looking and aims to capture not simply end-of-pipe performance but the drivers and enablers which set sustainability leaders apart in their ability to achieve long-term shareholder value.
- The index's methodology appears to work in identifying future value potential: the DJSI has outperformed the base index over the past three years.

## Hot topic

- Does the Dow Jones Sustainability Index matter to businesses beyond those awarded 'best in class' status? The Dow Jones Sustainability Index focuses on identifying 'best in class' companies. Companies that achieve membership see it as a 'gold standard' award. It has been criticised as too narrow to impact on mainstream business practice, since movements in and out of the top of this league are few giving little incentive for those much further down to compete for membership. Investment in funds based on the Sustainability Index remain marginal to general investment: almost all the DJSI funds are based in Europe although the index is now beginning to enter the US market. However, the index's methodology is a powerful tool for identifying where sustainability performance is aligned with shareholder value: a key issue for all. The Index works to support change beyond the top 10% in a number of ways:
  - ✓ All companies that complete its 20 page survey receive a benchmarking report of their performance against their peers which includes indications of where they can improve.
  - ✓ Reports on sustainability practices of the market leaders of each of the sectors represented in the index are published annually.
- The Dow Jones Sustainability Index has achieved a high profile and its methodology is well respected, but it may be undermined by perceived conflicts of interest. The Dow Jones Sustainability Indexes are a cooperation of Dow Jones Indexes, STOXX Limited and SAM Group – a leading sustainable investment company. SAM is responsible for updating the methodology annually and reviews global trends and consults with a variety of stakeholders to ensure that the criteria reflect leadership practice. The Dow Jones Sustainability Index is powerful partly because it has not been negotiated or 'designed by committee' but with the clear aim of identifying value drivers. However, while the methodology of the index is respected its legitimacy is vulnerable to being undermined by the involvement of SAM in both designing the index methodology and selling investment products based on the index.

## Strategic challenges

- Adopting forward looking approaches to assessing and communicating sustainability. Whilst corporate involvement with the DJSI itself is essentially 'passive', beyond filling in the annual questionnaire, the index's ground-breaking approach in assessing the potential to create long-term shareholder value is in itself a strategic challenge and opportunity which should be replicated in other standards, indices and metrics.

### Possible Actions:

- ✓ The business community could push for other indices and measurement devices to adopt a forward looking approach which meets the needs of decision makers. The DJSI offers a useful practical model.

## AccountAbility opinion

- The Dow Jones Sustainability Index is a crucial first step in mainstreaming sustainability concepts into investor decision making.
- Its strength lies in its well developed methodology for identifying 'best in class' practise in relation to social, environmental and economic performance and potential to create long-term shareholder value.
- The DJSI methodology has been successful partly because it has not been 'designed by committee'. However, it is vulnerable to losing credibility because of the perception of a conflict of interests in its governance.
- A key challenge for the DJSI will be to move beyond the niche SRI industry and from European investment funds to engage more fully with mainstream investors globally.

## Fact sheet

### Origin / rationale

- Launched in 1999 as the world's first equity benchmark to track the financial performance of sustainability leaders on a global scale.
- To bring together the expertise of two leading index providers and the world-renowned pioneer in sustainability investing in order to meet the growing market demand for professional, objective and reliable sustainability benchmarks for balancing financial returns with ethical considerations.

### Purpose

- To provide the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide (diversified both by geography and by sectors).

- To offer both a performance baseline as well as an investment universe for the increasing number of mutual funds, certificates, separate accounts and other investment vehicles which are based on the concept of sustainability.
- To create and license indexes for use in investment products.

### Governance / Institutionalization

- The DJSI is a cooperation of Dow Jones Indexes, STOXX Limited and SAM Group (SAM Indexes GmbH is the operating company for the DJSI).
- The DJSI World Index Design Committee and the DJSI STOXX Index Design Committee are responsible for all decisions affecting the indexes, including changes to the composition and methodology.

### Funding

- A license is required for the commercial use of any aspects of DJSI such as using the indexes as a benchmark or as the bases for financial products and funds of any sort. To date 51 licenses have been sold to asset managers in 14 countries such as Credit Union Central in Canada, Merrill Lynch International in the UK, and UBS Global Asset Management Ltd in Japan. ([www.sustainability-index.com/html/other/licensing.html](http://www.sustainability-index.com/html/other/licensing.html)).
- As of August 31 2003 the assets managed in portfolios using the DJSI amount to US\$3.4 billion.

### Operationalization

- A defined set of **criteria and weightings** is used to assess the opportunities and risks deriving from economic, environmental and social developments for the eligible companies.
- A major source of information is the SAM questionnaire, which is completed by companies participating in the annual review.
- Further sources include company and third-party documents as well as personal contacts between the analysts and companies. ([www.sustainability-index.com/html/assessment/overview.html](http://www.sustainability-index.com/html/assessment/overview.html)).
- A yearly review to reflect best practice and monitoring of the companies.
- Listed companies are entitled to use the official “member of DJSI” label.

### Rigor of obligation

- External verification by PricewaterhouseCoopers ensures that the corporate sustainability assessments are completed in accordance with the defined rules.
- Unauthorized use of the DJSI label is “policed” (no details of how at present).

### Users

- Companies do not ‘use’ the DJSI. Companies are either selected or excluded ([www.sustainability-index.com/html/other/faq.html#selection](http://www.sustainability-index.com/html/other/faq.html#selection)).
- Analysed companies (top 10% of the leading sustainability companies from the Dow Jones eligible universe of the 2,500 largest companies by market capitalisation are



assigned a sustainability score and are ranked accordingly within their industry group.

- The DJSI covered 60 industry groups in 22 countries in 2003/2004.
- For example, following the 2003 Annual Review sector leaders included BP Amoco in Energy, Toyota in Automobiles, Westpac Banking Corp. in banks. ([www.sustainability-index.com/html/assessment/DJSI\\_World\\_msectorleaders\\_new.html](http://www.sustainability-index.com/html/assessment/DJSI_World_msectorleaders_new.html)).

### Further information

Key document(s): Studies, Factsheet, Guidebook, Presentations, Info Brochure

Website: [www.sustainability-indexes.com/](http://www.sustainability-indexes.com/)

Contact: [info@sustainability-indexes.com](mailto:info@sustainability-indexes.com), Tel: +41 1 395 2828

**Remarks**  
comments



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## Significance

- Sarbanes-Oxley is a global watershed in law that influences organizational accountability.
- **Comply or else!** It establishes mandatory and statutory regulatory requirements on public companies and their auditors in relation to corporate governance and accounting procedures in order to protect investors.
- Critically, all **US-listed public companies and their auditors (foreign or domestic)** are obliged to conform with the Act.
- The Act includes non-financial aspects of risk and reporting, which have so far been given low profile, but are likely to be a key driver in the development of non-financial disclosure.

**Sarbanes-Oxley**  
Public Company Accounting Reform and Investor Protection Act

## Hot topic

- **Is Sarbanes-Oxley Simply an Indicator of What is to Come for Corporate America?** Business and NGO concerns about Sarbanes-Oxley relate to perceptions that it is cumbersome and reporting demands do not make sense:
  - ✓ Whilst many parts of the business community welcome government action, some are concerned it is regulatory overkill due to its cumbersome nature: CEO signoff and personal liability raises the spectre of some European-headquartered companies deciding to de-list from the USA
  - ✓ Burdensome cost of implementation in rush to meet the legal deadline, whilst recognizing efficiencies may be realised over time.

Many organisations in the niche SRI community as well as civil society welcomed the new regulation on corporate governance, both as a check on business conduct but also the role of independent auditors, but some NGOs express concern that:

- ✓ It is not entirely clear what is being demanded of companies, due to speed of the Act being drawn up at a time of crisis in the markets
- ✓ A lack of clear understanding of how corporate governance relates to (non-financial) sustainability performance and impacts.

(See [www.socialfunds.com/news/article.cgi/article936.html](http://www.socialfunds.com/news/article.cgi/article936.html)).

- **Towards Harmonization of Corporate Auditor Oversight.** A number of observers comment that the effect of Sarbanes-Oxley on actual corporate governance can only be judged in a decade's time.

- ✓ It is considered by some to be a signpost, a first stage of broader corporate reform, with subsequent secondary regulation to flow from the 2002 Act.
- ✓ Wider ramifications relate to how some see the scandal at Enron in the USA and the subsequent collapse of Andersen and the more recent scandals at Ahold and Parmalat in Europe, aiding US-EU auditor oversight pact ([www.reuters.com/](http://www.reuters.com/), January 2004).

## Strategic challenges

### ■ Uncertainty over the implementation of the Act

#### Possible Actions:

- ✓ Request further support and advice from the SEC on the practical interpretation of how corporate governance legislation in the USA relates to say France, the UK, and South Africa.
- ✓ If feasible European companies, explore the cost-benefit options to de-list from US stock exchange.

### ■ Harmonization of US-EU Corporate Auditor Oversight

#### Possible Actions:

- ✓ Seek, perhaps through a trade association, clarification on how business will be involved in any future process for deciding on expansion of the Act.
- ✓ Request elaboration from the SEC on options, including potential costs and benefits to companies and markets, for harmonization of US-EU corporate auditor oversight.

## AccountAbility opinion

- The Act is potentially **one of the most importance pieces of corporate governance legislation** of all time.
- Its initial **success in naming and shaming offenders will be short-lived if it does not lead to wider root and branch change** in the way businesses conduct themselves.
- In addition to this, is the recognition that **what the Act means in practice needs to be coherently and consistently communicated to assist implementation** by companies and auditors, as well as observers in civil society.

## Fact sheet

### Origin / rationale

- Reform of company accounting and protection of investors “post-Enron”.

### Purpose

- To establish mandatory and statutory regulatory requirements on public companies and their auditors in relation to corporate governance and accounting procedures in order to protect investors.

### Governance / Institutionalization

- President George W. Bush signed the Sarbanes-Oxley Act of 2002 (Public Law 107-204) on July 30, 2002.
- The law establishes a five-member Public Company Accounting Oversight Board (PCAOB) that is subject to Securities and Exchange Commission (SEC) oversight.

### Funding

- Registration and annual fees collected from each registered public accounting firm to cover the budget of the Board.
- Any funds collected by the Board as a result of the assessment of monetary penalties will be used to fund a merit scholarship program for undergraduate and graduate students enrolled in accredited accounting degree programs.

### Operationalization

- Guidelines on conflicts of interest for executives and consultants and auditors alike to avoid fraud and promote ethics.
- Various online resources and forums exist to aid implementation of the Act ([www.sarbanes-oxley.com](http://www.sarbanes-oxley.com)).

### Rigor of obligation

- Registration with the Board is mandatory for public accounting firms, foreign or domestic that participate in preparation or issuance of any audit report with respect to a public company.
- The Board inspects, investigates and disciplines public accounting firms and enforces compliance with the act.
- Enhancement of criminal penalties.

### Users

All US-listed public companies and their auditors (foreign or domestic).

### Further information

Website: [www.sarbanes-oxley.com/](http://www.sarbanes-oxley.com/)

Contact: [info@karlnagel.com](mailto:info@karlnagel.com)

**Remarks**  
comments



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# Notes

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