

# CSR Reporting

**Gone are the days when companies' annual reports were not expected to be anything more than an update on the latest corporate earnings figures. Investors are now demanding better information on how companies identify and manage their social and environmental impacts and risks. Gaby Oetterli, Manager – Corporate Social Responsibility, Business Environment Council, introduces the key concepts of corporate social responsibility reporting and gives some tips on how to get started.**

There is a new way of thinking that is gaining support worldwide in this time of global warming, increasing air and water pollution problems, loss of biodiversity, drinking water scarcity, over-population and waste disposal problems. Individuals, corporations, NGOs, governments, communities, in fact all levels of society,

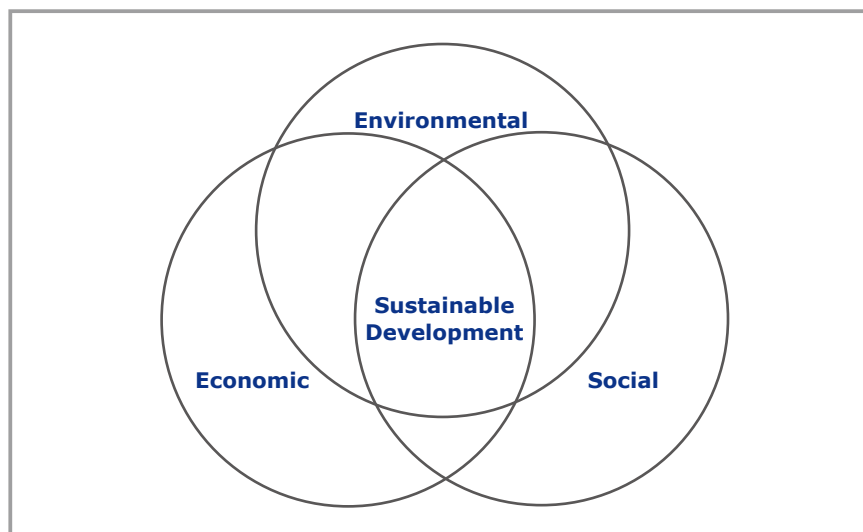
have realised that they need to re-think their everyday lives, business practices and policies if development is to become more sustainable.

### **Sustainable Development**

The best known definition of the term 'sustainable development' can be found in a report published by the UN World Commission

on Environment and Development in 1987 known as the Brundtland Report. Therein the concept is defined as: 'Development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs'.

The concept of sustainable development therefore very much concentrates on development at

**Figure 1: The three dimensions of sustainable development**

a societal level: we need to leave the world in a good state for our children and their children. Usually we refer to the three dimensions of sustainable development as ‘social, environmental, economic’, or some will refer to them as ‘people, planet and prosperity’ or even ‘the triple bottom line’. The aim of sustainable development is to balance social, environmental and economic aspects when making decisions, so that development will minimise the negative impacts on society, our environment and our economies.

These three dimensions of sustainable development, as you can see from Figure 1, are interlinked. Thus impacts on the environment will lead to effects on our societies and economies (whether positive or negative). A good example of this is climate change. Changes to our environment resulting from the melting of polar ice can lead to the flooding of coastal communities, which will impact negatively on the communities located in coastal regions as well as on our economies as a result of lost productivity from these regions.

We have looked at sustainable development on a societal level, now let us focus on what this concept means for companies.

#### **Corporate Social Responsibility and Corporate Sustainability**

On a business level, corporate development that is sustainable and long term means companies no longer just look after their financial bottom line, but also take a more holistic approach and integrate social and environmental aspects into decisions involving their business operations, strategies and policies.

Going back to the three dimensions model, in concrete terms this means for an individual company:

- On the environmental dimension, businesses can for example build up environmental management systems to allow them to systematically identify their specific environmental impacts and set targets to reduce them. Or the company can carry out life-cycle assessments of their products to identify where their products have the greatest environmental impact along its life-cycle and take measures to reduce these.
- On the social side, a company can undertake initiatives which have a positive impact on its staff and on the community in which it operates, for example taking measures to optimise the

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health and safety of its staff or get involved in the community through staff volunteering or corporate philanthropy.

- The economic dimension covers the typical financial bottom line of a company's performance, for example improving its sales, market share, shareholder value, local hiring (making a positive impact on the local economy in addition to its own bottom line), etc.

Figure 2 below depicts these points.

There are many different terms that are currently being applied to describe this triple-bottom-line approach to business, but one of the most widely applied terms is corporate social responsibility

(CSR). CSR is a concept that is very close to similar approaches and terms such as corporate sustainability, corporate sustainable development, corporate responsibility and corporate citizenship.

While CSR does not have a universally accepted definition, it can be viewed as the pursuit of sustainable development by businesses, or the attempt to integrate economic, social, and environmental aspects into decision making. The Dow Jones Sustainability Index's definition of CSR or corporate sustainability states that: 'Corporate sustainability leaders achieve long-term shareholder value creation by gearing their strategies and management to harness the market's potential for sustainability products and services while at the same time

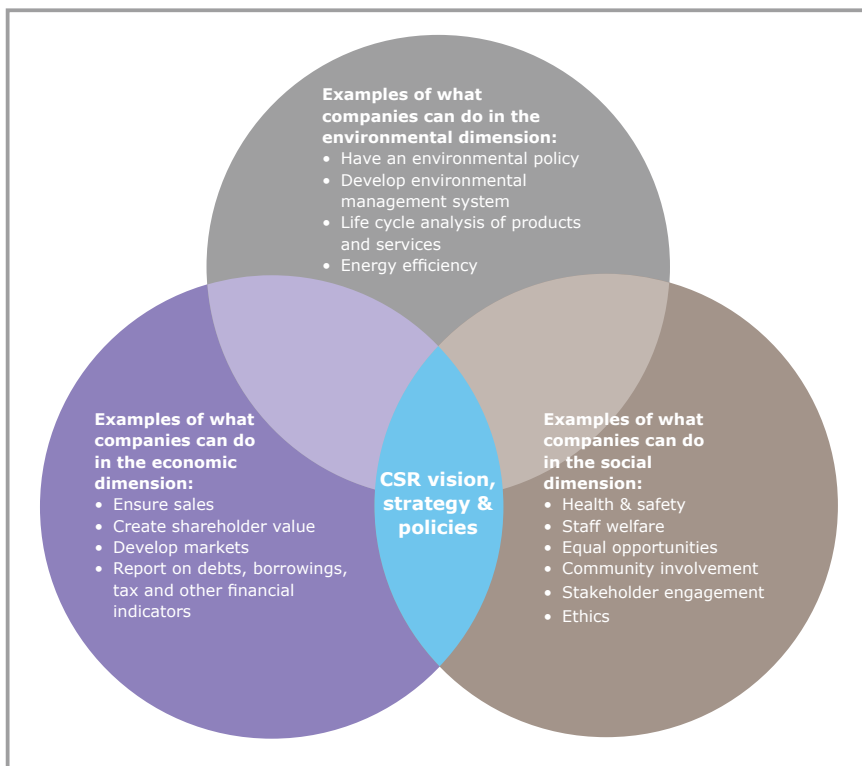
successfully reducing and avoiding sustainability costs and risks'. An example of new product innovations can be seen by DuPont. By 2015, DuPont will grow its annual revenues by at least \$2 billion from products that create energy efficiency and/or significant greenhouse gas emissions reductions for their customers. They estimate that these products will contribute at least 40 million tonnes of additional CO2 equivalent reductions by their customers and consumers.

**CSR Drivers**

Why are companies doing any of this? The drivers can be seen from two perspectives: on the one hand the company is managing its risks, including risks to its reputation resulting from environmental disasters or unethical business practices, or risks to its operations as a result of being unaware of changing environmental and social trends. Managing environmental and social aspects of your company's operations will also lead to reduced exposure to liability and can increase the company's eco-efficiency (for example reducing energy and resource consumption, and waste production). On the other hand the company is realising new opportunities arising from environmental and social trends, such as creating new markets in the sustainability field or differentiation in existing markets (for example organic food, renewable energies, clean diesel and hybrid cars).

Furthermore, companies can gain access to capital that is specifically being set aside for companies displaying good CSR (socially responsible investment). An additional reason for companies adopting good CSR practices

**Figure 2: Examples of corporate environmental, social and economic aspects**



results from pressure down the supply chain. Large multinational companies who have picked up CSR at the strategic level, are increasingly requiring their upstream and downstream partners to also behave in an environmentally and socially responsible manner.

The KPMG International Survey of Corporate Responsibility Reporting 2005 contacted more than 1,600 companies and found that business drivers for CSR are diverse. They can be broadly divided into economic and ethical drivers. The economic reasons were either directly linked to increased shareholder value or market share, or indirectly linked through increased business opportunities, innovation, reputation and reduced risk. About half the companies also listed employee motivation as their driver for corporate responsibility, which is significant in the context of the 'war for talent' affecting companies globally. Only about a quarter of the reports mentioned 'reputation/brand' as a driver for corporate responsibility.

### So What is CSR Reporting?

CSR reporting involves a company regularly (typically annually or bi-annually) producing a stand-alone report, a section of its annual report or, increasingly, web-based information covering the company's economic, social and environmental performance during the reporting period.

Typically, CSR reporting will contain information on the company's CSR visions, strategies, goals, programmes as well as its social, environmental and economic performance over the reporting period (typically the timeline is aligned with the company's financial



year). The performance can be portrayed either through the use of quantitative indicators (for example the total amount of greenhouse gas (GHG) emissions resulting from the company's operations over the last financial year, or the amount of GHG emission per employee) or qualitative descriptions (for example describing the staff volunteering programmes the company has in place or its policies on equal opportunities). Companies typically also include information about their progress on reaching their CSR goals.

Good CSR reporting will include information on how the company engages with its key stakeholders, the expectations that these stakeholders have of the company's social and environmental performance, and how the company is responding to these expectations.

The scope of CSR reporting varies: some companies may only focus on their environmental

performance (environmental reporting), or also include their health and safety performance (environmental, health and safety reporting), or just focus on social aspects (social reporting). If a company is reporting on all three aspects of sustainable development, then the reporting will typically be called CSR or sustainability reporting.

### Drivers for CSR Reporting

There are a number of different reasons why companies are undertaking CSR or sustainability reporting, some of the key ones being:

- An increased demand for social and environmental performance information from a company's key stakeholders (shareholders, employees, clients, insurers, regulatory bodies, NGOs, the media, etc). These stakeholders are demanding



**CSR can be viewed as a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments**

increased accountability and transparency from the company. This accountability links in with the more recent demand for a company to be transparent regarding corporate governance. CSR reporting can therefore help build trust between the company and its stakeholders. It provides an active communication tool for the company to display its social, environmental and economic performance, including what the relevant issues are to the company and to its stakeholder groups, both internally and externally. It shows that the company is committed.

- The financial market is also increasingly requesting information about a company's CSR performance. The area of socially responsible investments is growing globally and there are more and

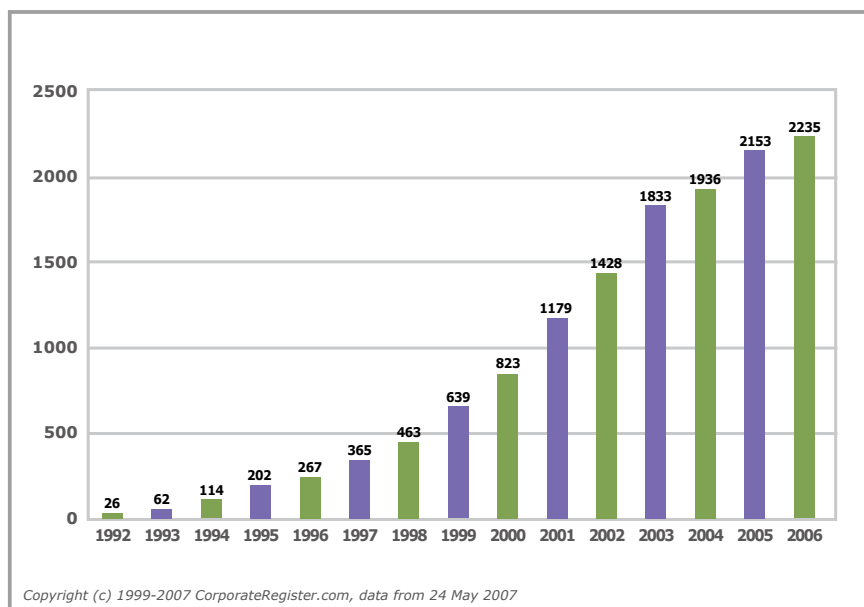
more sustainability funds and indices (for example the Dow Jones Sustainability Index or FTSE4Good) being launched. Financial investors now also want to ensure that their money is being placed in companies that can actively manage risks and so are requiring better information on how the company identifies and manages social and environmental risks, and to explain how these risks affect short- and long-term value.

- CSR reporting also helps to strengthen the company's management process with regard to managing its social and environmental aspects – what's not measured is not done. The cycle of reporting helps a company to set up data collection channels and responsibilities, set goals and targets and to monitor progress. A quote by Shell highlights this point '...reporting forces companies to publicly take stock of their environmental and social performance, to decide improvement priorities and deliver through clear targets'.
- CSR reporting can enhance a company's image if it can display good performance regarding its contribution to society and the environment.

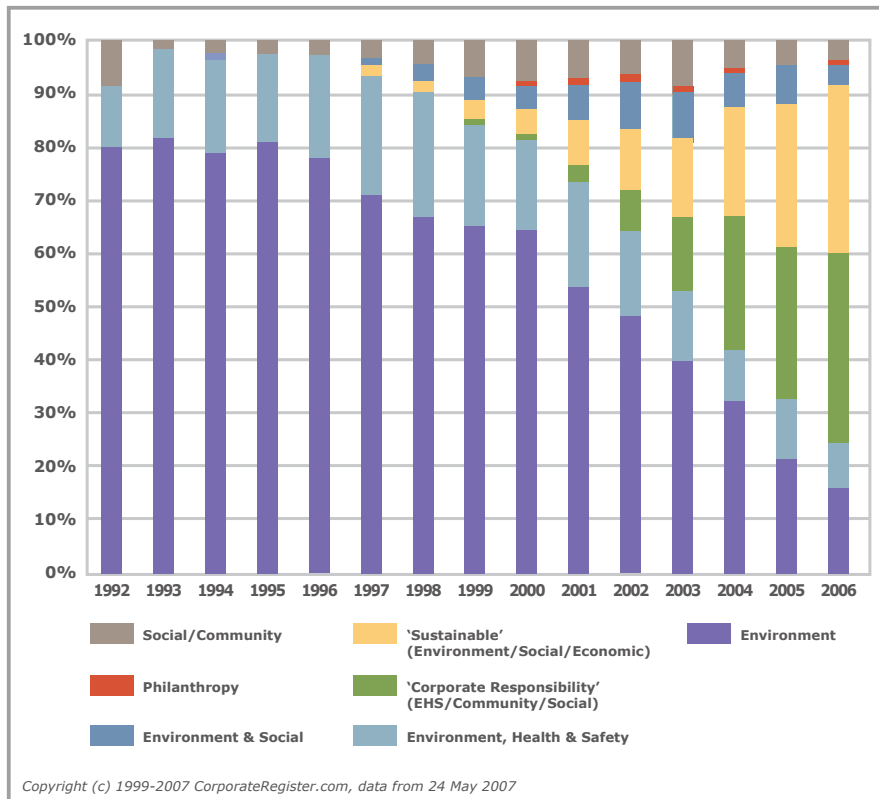
**Trends in CSR Reporting**

CSR reporting has been gaining momentum over the last 15 years. Research by CorporateRegister.com shows that the number of reports

**Figure 3: Trend in number of CSR reports globally since 1992**



**Figure 4: Trends in the type of CSR report globally since 1992**



(covering standalone CSR/sustainability/environmental/social reports, or similar sections of more than six pages in an annual report) worldwide has increased from 26 in 1992 to 2,235 in 2006 (see Figure 3). They also found that in March 2007, 81% of the FTSE100 companies produced such reporting within the last two years.

Another interesting trend that can be recognised in CSR reporting over the last decade, is that companies are moving away from pure environmental reports to increasingly reporting holistically on their social, environmental and economic performance in a sustainability or CSR report (see Figure 4). Some companies are now even picking up social and environmental aspects within their annual reports, showing that these aspects have been integrated into their core business operations.

### Available CSR Reporting Guidance

There are a number of guidance documents available to companies wishing to undertake CSR reporting. The worldwide most widely recognised CSR or sustainability reporting guidance is provided by the Global Reporting Initiative (GRI). The latest GRI guidance, G3, published in October 2006, provides guidance on how a company can set up its sustainability reporting by following certain principles as well as guidance on the actual performance indicators to report on, covering economic (nine indicators), environmental (30 indicators) and social (40 indicators) aspects. GRI has also developed sector supplements which contain additional indicators that are specifically relevant to a certain sector (for example financial institutions, electric utilities, public agencies). Figure 5 provides a

summary of what a sustainability report based on GRI would look like. In April 2007 there were over 1,000 reporting organisations declaring they based their report on GRI.

More locally, the Business Environment Council co-produced Hong Kong's first 'A Guide to Environmental Reporting for Controlling Officers' in 1999. The EPD also issued 'A Guide to Corporate Environmental Performance Reporting' in 2001.

### Some Useful Tips to Get Started with CSR Reporting

Companies reporting on their CSR performance need to be aware of a few key challenges that they face during this process and how they can overcome these in order to successfully report on CSR issues:

- Identify your company's key CSR issues through an internal check as well as through carrying out dialogue with your company's stakeholders and asking them what they think are the key social and environmental challenges facing your company.
- Start setting up a system within your company to set goals and responsibilities for gathering information on your performance in these key areas.
- Once this system is in place and there is information to report on, prior to developing the report it is important to identify your target readers and focus the content of the report and level of detail to their information needs.
- There is a danger of including too much information in your report. It is better to focus on the key CSR issues that face

your company (material issues) and report on how you are managing those.

- Readers are increasingly requesting that the information presented by the report is verified by an independent third party. Having the information contained in your report checked by an independent verifier is considered good practice and should be looked into.

Now that you have some background information on CSR and CSR reporting, link it into your business and help improve your company's financial bottom line to a triple bottom line.



*Gaby Oetterli*  
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**Business Environment Council**

*The Business Environment Council (BEC) is an independent, non-profit organisation set up by business for business as an environmental solutions provider.*

*BEC's services include consultancy, research, training and award programmes for companies across all sectors and at any stage of their corporate sustainability journey. BEC is a regional network partner of the World Business Council for Sustainable Development (www.wbcsd.org) and a membership organisation based in Hong Kong with offices in Beijing and Shenzhen.*

**Figure 5: Overview of what a sustainability report based on GRI would contain**

<b>Content of a GRI-based Report:</b>	
<b>1. Strategy &amp; Profile</b>	Description of the reporting organisation's strategy with regard to sustainability, including a statement from the CEO; key impacts, risks & opportunities; organisational profile (structure and operations).
<b>2. Reporting Parameter</b>	Overview of the scope of the report (reporting period, reporting cycle, report boundary, limitations).
<b>3. GRI Content Index</b>	A table supplied by the reporting organisation identifying where the information listed in the Guidelines is located within the report.
<b>4. Governance Commitments &amp; Engagement</b>	Description of organisational governance structure, commitments to external initiatives (eg charters), stakeholder engagement efforts.
<b>5. Management Approach &amp; Performance Indicators</b>	Sustainability performance indicators divided into economic, environmental, and social performance categories. Each category includes a disclosure on management approach and a corresponding set of core and additional performance indicators.
<b>6. Sector Supplement</b>	Where available, this sector-specific guidance (performance indicators) should be used in addition to the Guidelines.

*Gaby Oetterli joined Hong Kong's Business Environment Council (BEC) last October as manager of BEC's Corporate Social Responsibility team and supports BEC members, partners and clients on CSR issues. Before joining BEC, Gaby gained six years of experience as a consultant in the field of Corporate Social Responsibility in Switzerland, dedicated to helping companies achieve sustainable corporate solutions. She has worked with clients from many sectors including industry, commerce, government and financial service institutions. Gaby Oetterli holds a Master of Science in Environmental Studies and a Bachelor of Science in Marine Sciences, both from the University of Southampton, UK, and an Executive Master Business Engineering from the University of Berne, Switzerland.*