



## **Social Research Analyst Statement on Corporate Sustainability Reporting (October 2005 Update)**

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This document represents a collective effort by social research analysts at 23 investment firms from around the globe representing over \$435 billion in assets under management to:

- (1) articulate our expectations for corporate reporting of social and environmental performance information;
- (2) provide answers to companies' most frequent questions on reporting; and
- (3) suggest ways companies can enhance the usefulness and credibility of their reports.

We offer these perspectives based on our experience using the information disclosed in sustainability reports and our insights gained by working collaboratively with companies we hold to improve their reporting.

### **Summary of Reporting Expectations**

As institutional investors with socially responsible investments, we encourage all publicly traded companies to provide annual standardized reporting of their social and environmental policies, practices, and performance. As we elaborate below, we strongly recommend companies base their reporting on the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines to increase the credibility, comparability, and utility of this type of reporting. As a minimum level of commitment to the GRI guidelines, we recommend that companies include an index of the GRI indicators covered in their reports. To encourage the development of high quality reports meeting the GRI guidelines, we support the principle that a company's GRI report should be the first place investors and research institutions consult for information before asking companies to fill out surveys and questionnaires.

### **Responses to Frequently Asked Questions**

#### ***Why do investors value reporting?***

The availability of environmental and social performance data is clearly critical to our business. This information provides a basis for our social and environmental analysis. It also is a key component of our financial analysis because current financial disclosure requirements do not reveal all of the risks, liabilities, or advantages associated with a corporation's activity. We also view a commitment to transparency and efforts to address social and environmental risks as indicators of strong corporate governance. Overall, we find compelling the large and growing body of evidence linking companies' strong performance addressing social and environmental issues to strong performance in creating long-term shareholder value.

#### ***What is the business value of reporting?***

Many companies have told us that their sustainability reporting has yielded significant internal benefits in addition to helping them meet increased expectations for transparency by investors and other external stakeholders. Citing the adage, "what gets measured gets managed," many executives have commented that the reporting process has helped their companies better integrate and gain strategic value from existing corporate social responsibility efforts, as well as identify gaps and opportunities for improvement. Some express surprise at the level of interest and enthusiasm their sustainability reports generate from employees at all levels of the company.

In terms of external stakeholders, we believe that companies can more effectively communicate their perspectives and report performance on complex social and environmental issues through a comprehensive report than through press releases and other ad hoc communications. Comprehensive reporting can also help companies demonstrate that they have in place effective internal controls for reporting environmental liabilities and risks in their financial statements.

***What format and frequency of reporting do SRI firms expect?***

We encourage companies to report on their environmental and social performance annually. This allows investors and other readers an opportunity to judge year-to-year performance and to have access to timely information. Whether companies choose terms such as *corporate social responsibility*, *corporate citizenship*, or *sustainability* to frame their social and environmental performance reports, we strongly recommend they use the Global Reporting Initiative's (GRI) "Sustainability Reporting Guidelines" to increase the credibility, comparability, and utility of their reporting. (The current version of the guidelines can be found at <http://www.globalreporting.org/guidelines/2002.asp>).

We support the GRI guidelines as the most comprehensive reporting framework available, and one that has gained broad credibility through a rigorous, global multi-stakeholder feedback process. We also believe the GRI guidelines provide a valuable tool for providing comparability and consistency across reports.

The GRI guidelines provide a standard for report content, including suggested performance indicators. Beyond these specific indicators, at the heart of the GRI is a commitment to eleven reporting principles: transparency, inclusiveness, auditability, completeness, relevance, sustainability context, accuracy, neutrality, comparability, clarity, and timeliness. (Each of these is explained in detail within the GRI guidelines document.) We view these as bedrock principles for all credible corporate sustainability reporting. We believe that good faith efforts to apply these principles result in reports that are more valuable for report users and the companies engaged in reporting alike.

A growing number of companies note that their reports are based on the GRI. We believe that all companies that claim their reporting is based on the GRI guidelines should provide an index of the GRI performance indicators they have covered. We also encourage companies to work towards reporting "in accordance" with the GRI guidelines. This status gives companies the flexibility to choose which performance indicators to use, but requires them to include an explanation if they do not report on all of the core GRI indicators.

Some companies are working to incorporate social and environmental performance information into their annual reports, rather than producing a separate report. We welcome such efforts if they can be done without compromising the depth and breadth of coverage. However, we do not view short or general treatments of social and environmental issues in an annual report as a substitute for more in-depth reporting. We also support company efforts to provide more in-depth, stand-alone reports on issues of particular concern to stakeholder groups, such as vendor standards or political contributions.

Some companies are also moving to provide sustainability performance information only on their websites, which can generate some cost savings and potential environmental benefits. However, some key stakeholders (from community members to employees in the field) still lack Internet access, and others find that published versions are easier to work with. Thus, we encourage companies to produce at least a limited set of printed reports to be available upon request.

***Will we still face multiple questionnaires and surveys if we do a report?***

The GRI was developed, in part, to reduce the number of different ways companies are asked to report on their performance (i.e., "survey fatigue"). The World Business Council for Sustainable Development estimates that the GRI covers 80 percent of the data asked for across the range of standard SRI-related screening and benchmarking surveys.



We support the principle that a company's GRI report should be the first place investors and research institutions consult for information before asking companies to fill out surveys and questionnaires. We encourage our research providers and consultants to accept this principle as well. We expect that individual institutions and analysts will continue to ask companies for some additional or clarifying information not covered by their GRI reports.

### ***What value do you as readers place on verification statements?***

We do not have a common position on whether companies should have an outside auditor provide a verification statement for their report, although we have heard from many companies that auditors have helped them improve their measurement and reporting. We do encourage companies to include in their reports an explanation of the processes they have used to ensure the accuracy of the information they report. When reports include a verification statement, they should clearly explain the scope of the verification and how it was conducted. The GRI is examining various options for verification, which may help to clarify this issue in the future.

In addition to verification statements, we encourage companies to consider other assurance mechanisms to help ensure that sustainability reports provide an accurate picture of a company's social and environmental performance for the issues that are most relevant and material to its operations. These include effective stakeholder engagement processes, publishing credible third-party testimonials and critique, and others. We would welcome dialogue with companies to jointly explore meaningful assurance mechanisms that enhance the credibility and value of reporting.

### **Tips for Enhancing Reports' Value**

We frequently find that corporate sustainability reports are less credible and useful than they could be because of some common downfalls. We encourage companies to avoid these by addressing the following four points:

- **Include goals and opportunities to judge progress.** It is helpful to see year-to-year performance data to allow us to track the company's progress over time. Although we recognize there are challenges in doing so, we encourage companies to provide quantitative performance metrics and goals to help us more accurately measure the company's progress and to compare it to its peers. In addition to evaluating past performance, we also seek to understand where companies are heading in their management of pressing and emerging social and environmental issues. To this end, we strongly encourage companies to include in their reports forward-looking goals and expected timelines.
- **Provide balance.** Reports that include frank discussions of a company's strengths and weaknesses are more credible and useful than those that only include good news. In particular, companies lose significant credibility if they are facing high profile controversies on social and environmental issues that they fail to discuss in their sustainability reports. We find it far more persuasive when companies acknowledge controversies, share their perspectives, and discuss how they are seeking to address the issues, than when they only discuss positive performance.
- **Provide adequate context.** Reports are most useful when they provide context for the information shared. For instance, if a report includes an anecdotal case study, it should explain how the example fits into a broader framework (e.g., is it a pilot project the company plans to roll out more broadly?). Similarly, when a report provides data on an indicator such as purchases from minority suppliers or purchases of recycled material, it should provide relevant context data on the total amount of purchases for that time period, or what percentage of total purchases those programs represent. In addition, companies should disclose how they have drawn the boundaries for the performance

data they include (e.g., U.S. figures versus worldwide operations). Given trends in outsourcing and globalization, investors and other stakeholders are increasingly interested in key impacts related to companies' supply chains (such as environmental impacts and labor practices). While we recognize the challenges of collecting and reporting such information, we encourage companies to follow the example of leadership companies that are increasingly collecting and reporting key performance data related to their supply chain.

- **Incorporate stakeholder engagement into the reporting process.** In our experience, companies produce far better reports and gain far more value from the reporting process when they consult with key stakeholders in planning the framework for an upcoming report or getting feedback once they release their report. Many companies have told us that the chance to engage stakeholders in discussions on important issues is the most valuable outcome of their reporting. Some have also incorporated stakeholder feedback into their reports in ways that demonstrate thoughtful consideration of stakeholder input and enhance the credibility of their reporting.

### **Reporting Benchmarks**

We recommend companies benchmark their reporting performance against reports recognized for quality and leadership by one of several initiatives to recognize strong performance in reporting. One rigorous ranking of sustainability reports globally is the Global Reporting studies issued biennially by the U.K. consulting company SustainAbility, the United Nations Environment Programme and Standard & Poor's. More information on these ratings is available at [www.sustainability.com](http://www.sustainability.com). In addition, CERES and the Association of Chartered Certified Accountants (ACCA) began presenting the annual North American Sustainability Reporting Awards in 2003, to recognize North American companies for reporting leadership. Information about past winners is available at [www.ceres.org](http://www.ceres.org).

### **Signatories**

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**Additional Supporters**

In addition, the following organizations have expressed support for this statement.

- The Association for Sustainable and Responsible Investment in Asia (AsRIA)
- Avanzi SRI Research
- Ceres
- CoreRatings
- European Social Investment Forum (EUROSIF)
- Innovest Strategic Value Advisors, Inc.
- Interfaith Center on Corporate Responsibility (ICCR)
- Investor Responsibility Research Center, Inc. (IRRC)
- Jantzi Research Inc.
- KLD Research & Analytics, Inc.
- Social Investment Research Analysts Network (SIRAN), Social Investment Forum

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