

Trends in non-financial reporting

November 2006

Paper prepared for the United Nations Environment Programme, Division of Technology, Industry and Economics (DTIE)

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1 INTRODUCTION

The Global Reporting Initiative (GRI) was launched in 1997 as a joint project of the Coalition for Environmentally Responsible Economies (a US-based alliance of environmental groups and socially responsible investors) and the Tellus Institute (a US think tank focusing on sustainable development issues). The United Nations Environment Programme (UNEP) was an important catalyst for the emergence and growth of the GRI. In 1998, UNEP decided to join and support the nascent initiative due to its interest and work on issues related to non-financial reporting since the early 1990's. The Paris-based Division of Technology, Industry and Economics (DTIE) of UNEP deeply engaged itself in the work of the rapidly evolving initiative by providing administrative support, as well as UNEP staff members who served on the initial Steering Committee that guided the GRI's early institutional development phase. UNEP's engagement was also instrumental in assisting the GRI to secure a major grant from the United Nations Foundation (UNF), a critical factor in getting the initiative off the ground and bringing other financiers on board.

The GRI—based today in Amsterdam, the Netherlands, as UNEP Collaborating Centre and incorporated under Dutch law since 2002—promotes the international harmonization of reporting »of relevant and credible corporate environmental, social and economic performance information to enhance responsible decision-making.«¹ This reporting is commonly referred to as sustainability reporting, or non-financial reporting (NFR). In recent decades, NFR has become one of the »hot topics« in international debates about sustainable development. The GRI has been a pioneer in this arena, developing and disseminating a globally harmonized reporting framework, the »GRI Guidelines.« Since the publication of the first »GRI Draft Guidelines« in 2000, the number of organizations that build their reports on the GRI's framework has grown substantially. Today more than 800 organizations across all sectors of the economy exclusively use the »GRI Guidelines« for reporting on economic, environmental and social performance. In October 2006 the GRI launched the third revised edition of its guidelines, the »G3 Framework.«

Since the establishment of the GRI as an independent and permanent organization, UNEP has played a less central role in developing and managing the initiative. However, UNEP continued to provide financial support until 2004 and a former director of DTIE serves as a board member for the GRI. Current DTIE staff members engage with the GRI on a variety of programs and the GRI remains a UNEP Collaborating Centre (based on a Memorandum of Understanding between UNEP and GRI signed in 2002). In parallel, the GRI has also extended ties to other parts of the United Nations system and other intergovernmental organizations. In 2003 the GRI concluded an agreement with the United Nations Global Compact that encourages companies participating in the Compact to use the »GRI Guidelines« for producing their Communication on Progress reports.² In addition, various intergovernmental bodies have endorsed the »GRI Guidelines,« including the OECD Committee on International Investment and Multinational Enterprises (CIME). The »GRI Guidelines« is mentioned in the Johannesburg Plan of Implementation, the official outcome of the Johannesburg World Summit on Sustainable Development (WSSD) in 2002.³

In light of the GRI's conclusion of the initial setup phase and plans for a new business and financial model, UNEP commissioned the Global Public Policy Institute (GPPi) to conduct a review of the GRI. UNEP specifically requested a »forward-looking review«—that is, a study to analyze the current environment within which the GRI operates in order to distill strategic recommendations for the future evolution and positioning of the initiative. GPPi was asked, among others, to analyze whether the GRI is positioned well and with sufficient differentiation within the evolving market for non-financial reporting. This paper presents part of a broader review of the GRI operating environment. It focuses on past and future trends in non-financial reporting and the contribution of the GRI, without delving deeply into the implications of reporting trends for the management and future direction of the GRI.

1.1 METHODOLOGY

The review was conducted between December 2005 and September 2006 and builds on three sources of data:

- A review of existing documents and other literature (both publicly available material as well as materials provided by the GRI). A list of materials used for this review can be found in the references.
- A survey completed by experts and practitioners in the non-financial reporting realm. The survey sample was self-selected through searching the internet for relevant people with an interest and track record in the field of sustainable development, CSR and non-financial reporting, across different sectors, regions, and gender and revenue streams. The response rate was approximately 32 percent. This is slightly higher than what is usually found in the social sciences. Nonetheless, the survey results are not representative. For more information on the survey and survey methodology see Appendix 1.
- In-depth interviews with representatives from UNEP, the GRI, reporting institutions, financial analysts, members of GRI governance bodies, and sustainability experts. Interview partners were selected based on an initial slate of candidates presented to GPPi by the GRI Secretariat and UNEP. The goal was to achieve a good balance of interview partners across sectors as well as regions, while also making sure that not only »GRI insiders« were included. Despite considerable efforts, however, the group of interviewees is biased in favor of representatives from industrialized nations. For a list of interviewees and additional background on interviews see Appendix 2.

GPPi also conducted two on-site visits to GRI Headquarters in Amsterdam as well as two expert workshops at GPPi offices in Berlin, Germany.

A draft of the review was presented to UNEP, the GRI Board and the GRI Stakeholder Council in July 2006. Members from both GRI governing bodies provided ample feedback, which was subsequently incorporated into the final draft.

1.2 STUDY OVERVIEW

This report addresses the historical development and future growth of non-financial reporting trends in the context of a larger study commissioned by UNEP to analyze the operating procedures and future strategies of the GRI.⁴ The push for greater non-financial reporting stems from rising concerns over the environmental and social behavior of corporations and the resulting pressure, especially on large corporations, to become more transparent and accountable on these issues.⁵ A broad variety of perspectives and opinions have been voiced regarding the usefulness and likely impact of NFR. For the sake of analysis it is useful to distinguish two basic positions from the debate. The first position is that of NFR advocates. They see non-financial reporting as a powerful instrument to promote sustainable development. Measuring social and environmental performance, they argue, is a necessary precondition for engendering positive change. But more importantly, advocates suggest that it provides consumers and financial markets with crucial information they can use to exert pressure on companies to improve their social and environmental record.⁶

The alternate position taken toward NFR is that of the skeptics, who strongly question these ideas. Skeptics doubt whether sustainability reporting is feasible at all. In their view, a thorough and comprehensive analysis of a company's interactions and impact on its broader environment is »mission impossible« (see e.g. Gray and Milne, 2002). Furthermore, they doubt the ability of NFR to drive positive change, often noting that even if companies produced good reports in the past, they rarely act on their record. Moreover, »many companies do not report on indicators really material to them, and there are very few people who actually read and use the reports.«⁷

Without question, the debate about the feasibility and impact of NFR is far from resolved.⁸ GPPi believes that sustainability reporting, if taken seriously and managed well by those who report, can be a driver for more sustainable behavior. Yet it is neither within the mandate nor the scope of this study to conduct a comprehensive analysis concerning the general feasibility of NFR or its impact.⁹ Rather, our chief objectives are to provide an assessment of overall trends in the NFR realm, including an appraisal of past growth in the number of reporters across countries and industry sectors; an

examination of underlying growth drivers and levers; and a projection of expected future expansion of the number of reporters. Although systematic and reliable data on overall NFR trends are scarce, this analysis was critical in providing the foundation for a discussion of the GRI's future strategy and business model, as mandated in the project goals by UNEP.

This report proceeds as follows. The section following (2) presents an analysis of past NFR dynamics, including how it emerged, what the growth trends have been, and in what ways reporting has been used. Section 3 presents a discussion of perceptions and motivations among stakeholders about expected growth in reporting emerging from our interviews and survey, and contrasts these findings with a thorough examination of the drivers and levers behind NFR. Based on that analysis, the section offers three possible scenarios for the future development of NFR. The final conclusion in section 4 summarizes the most relevant aspects of sections 2 and 3.

- ¹ See the GRI mission statement at <http://www.globalreporting.org/about/mission.asp> (accessed 28 May 2006).
- ² See http://www.unglobalcompact.org/docs/how_to_participate_doc/3.0.6.pdf for further information.
- ³ See http://www.johannesburgsummit.org/html/documents/summit_docs/2309_planfinal.htm, in particular paragraph 17 (accessed 15 May 2006).
- ⁴ Systematic and reliable data on overall developments is scarce. For this report, we rely on data provided by CorporateRegister.com. To the best of our knowledge, the CorporateRegister.com database is the most comprehensive and most reliable database on NFR that also covers a relatively long period of time (1992-today). The CorporateRegister.com website is maintained by Next Step Consulting, a sustainability consulting practice based in London (see <http://www.nextstep.co.uk/> (accessed 19 April 2006)). Companies can contact CorporateRegister.com to get registered on the database. The Next Step Consulting Team also regularly searches the Internet and other sources to identify new reports. The data from CorporateRegister.com used in this report come by special agreement with Next Step Consulting. Next Step Consulting has kindly agreed to provide this data free of charge for use in this report. A note for clarification: While the GRI itself maintains a database that contains companies that use or reference the GRI Guidelines or reports in »in accordance« with these guidelines, the GRI does not maintain a database that would track larger reporting trends. In other words, the GRI database only includes reporters that build on the GRI Guidelines. The global pool of reporters, however, is much larger, as the CorporateRegister database shows.
- ⁵ This has become most apparent for companies in the chemicals as well as in the oil and mining industries that have become increasingly confronted with demands to become more open and transparent or to risk their »social license to operate« (see e.g. Gunningham, Kagan and Thornton 2004 and Cashore 2002). Just consider the criticism Shell faced during the 1990's as a result of its engagement in the Niger Delta (see e.g. Wheeler, Fabig and Boele 2002), or the massive campaign around »blood diamonds« that helped to transform the diamond industry (see e.g. Beffert and Benner, 2005). In addition to the chemicals and extractive industries, garment producers—especially those with highly visible brands—have also come under pressure, primarily for their social practices (e.g. child labor, forced labor, labor conditions) at production sites in developing and emerging economies (see e.g. DeTienne and Lewis 2005). Pressure on individual companies to report also varies with market structure. In general, in highly competitive and atomized markets, it is more difficult for NGOs to put pressure on individual companies than on oligopolistic (or even monopolistic) markets where pressure can be organized much more effectively. In the same way, the more diffuse a customer base is, the more difficult it is likely to become for pressure to be organized and applied. Small and coherent groups are more likely to be effective at organizing stakeholder pressure (Olson 1965).
- ⁶ This argument is broadly based on some of the insights gained in research in a fairly new branch of regulatory economics called »informational regulation«. In contrast to more traditional command and control approaches to regulation, informational regulation involves the government encouraging or requiring the provision of information about corporate non-financial impacts but without directly requiring a change in those practices. Rather, this approach relies upon economic markets and public opinion as the mechanisms to bring about improved performance. Note, however, that in the academic debate, informational regulation is targeted almost exclusively at large enterprises, and, in particular, at public companies (which are vulnerable to share price and investor perceptions) and those which are reputation-sensitive, because it is essentially these types of enterprise which are most capable of being rewarded or punished by consumers, investors, communities,

financial institutions and insurers on the basis of their environmental performance. For an introductory review to the economics of informational regulation, see Case (2005).

- ⁷ Phone interview conducted by the authors on 6 January 2006. Interview No.17. Other interviewees made similar remarks.
- ⁸ The literature is scattered with anecdotal evidence about the impact of NFR at the level of individual firms. However, to the best of our knowledge, comparative ex-post assessments that would provide a more systematic overview currently do not exist. For a review of impact of NFR on Swedish firms, see Hedberg and Malmborg (2003).
- ⁹ With regard to feasibility, there can be no doubt that non-financial reports represent only an approximation of the social and environmental impacts of a corporation. A truly comprehensive analysis (as envisioned for example by Gray and Milne (2002)) would be far too complex—and probably also not a good investment of time and other resources. However, we feel that what matters in the end is that companies report on indicators that are truly important (or material) to them and their stakeholders. And reporting on those material issues is usually within the realm of possibility. An airline, for example, should report on its CO₂ emissions—and with some effort should be able to do that fairly easily. There are certainly many other social and environmental indicators against which the airline could (and perhaps should) report. But from a pragmatic perspective, reporting on key indicators is usually not just feasible but also tends to generate the greatest value-added—for the reporting company, as well as its stakeholders.

2 PAST DEVELOPMENT OF NON-FINANCIAL REPORTING TRENDS

According to estimates of some analysts, there are more than 1,900 institutions worldwide producing non-financial reports. Other observers place the number even higher. Several interviewees suggested that the total number of reporters worldwide could now exceed 3,000. One rationale behind this large estimate is that rather than separately commissioned, full reports, the substantially higher figure reflects all organizations reporting on social or environmental indicators, even if the reports are scattered across various documents, some of which are not accessible to the public. From our perspective, it is critical to distinguish between these partial reports and »dedicated« reports; if sustainability reporting is interpreted liberally, almost all companies in the industrialized world would need to be included due to the existence of legislation that requires reporting on at least a few social or environmental indicators. In the United States, for example, almost all major federal environmental statutes require reporting on spills, leaks, and regulatory compliance. More systematic »summary-type« reporting is mandatory, for example, under the Clean Air Act, as well as other statutes (see Case 2005, pp.391-392). For the purpose of our analysis a narrower conception of NFR is crucial.

In most parts of the world, NFR remains a voluntary practice.¹⁰ So far, France is the only country to enact specific legislation requiring publicly listed companies to produce non-financial reports covering economic, social as well as environmental dimensions.¹¹ Various other countries mandate detailed reporting for specific industry sectors.¹² Additionally, some stock exchanges now make NFR a requirement for listed companies, such as the South African stock exchange.¹³ At the intergovernmental level, non-financial reporting and the guidelines issued by the GRI have been referenced in the Plan of Implementation agreed on by UN member states at the World Summit on Sustainable Development (WSSD).¹⁴ However, the reference does not imply a move toward a mandatory reporting approach at the UN level.

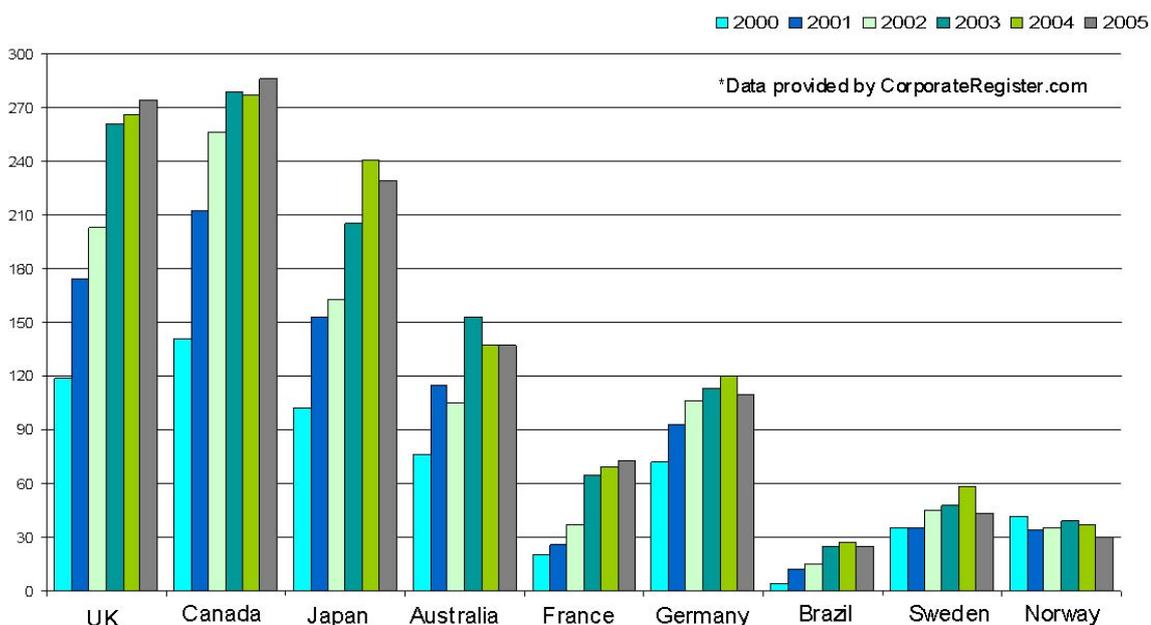
The increase in the overall number of reporters during the past decade is widely considered a success story. Various studies conclude that NFR has experienced »strong« (KPMG 2005, UNEP and Sustainability 2005) or even »phenomenal« growth.¹⁵ But in order to gain a more complete understanding of how trends in NFR may develop in the future, it is important to systematically examine the history of the phenomenon in greater depth. For that purpose, it is useful to consider both quantitative as well as qualitative indicators. Quantitative indicators refer to the general take-up of NFR practices (i.e. widening of the overall pool of reporters as a result of growth in the number of non-financial reporters both within and across countries). Qualitative indicators refer to the form and nature of reporting (i.e. deepening NFR practices in the pool of reporters as a result of maturing reporting practices, reporting assurance, etc.).

2.1 NON-FINANCIAL REPORTING HAS EMERGED AS A SUBSTANTIAL TREND IN THE OECD WORLD AND SPECIFIC INDUSTRY SECTORS

A look at some of the basic indicators on quantitative growth in the number of non-financial reports reveals a significant increase during the past decade.

The database CorporateRegister.com, for example, has tracked growth in the number of companies that produce non-financial reports since 1992.¹⁶ The number of non-financial reports produced globally has increased from less than 50 in 1992 to 1,906 in 2005. That means, on average, that the number non-financial reports published has grown in size by almost 39 percent each year for those 13 years.¹⁷ Growth has been strongest in the United Kingdom, the United States and Japan. The data show that there has also been some initiation of reporting in emerging and developing countries, most notably in South Africa and Brazil.

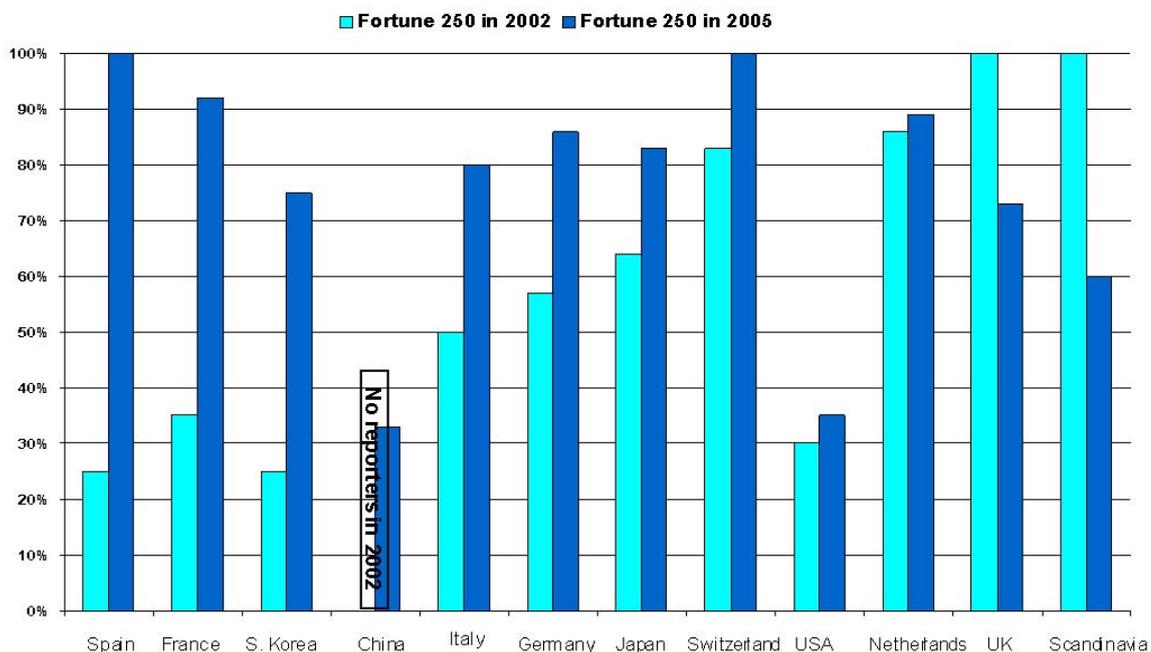
Figure 2.1a: National report output (selected countries) in number of reports



The survey conducted by KPMG reaches similar conclusions. Since 1993, KPMG has tracked the development of NFR, focusing on 16 countries (for the last survey, see KPMG 2005).¹⁸ The reports examine the utilization of NFR among the Fortune 250 companies, as well as among the 100 largest companies in each of the countries included in the survey.

The results indicate a steady growth in the number of reporters among the Fortune 250 companies (see Figure 2.1b).

Figure 2.1b: Growth in number of reporters among Fortune 250 (data from KPMG (2005))

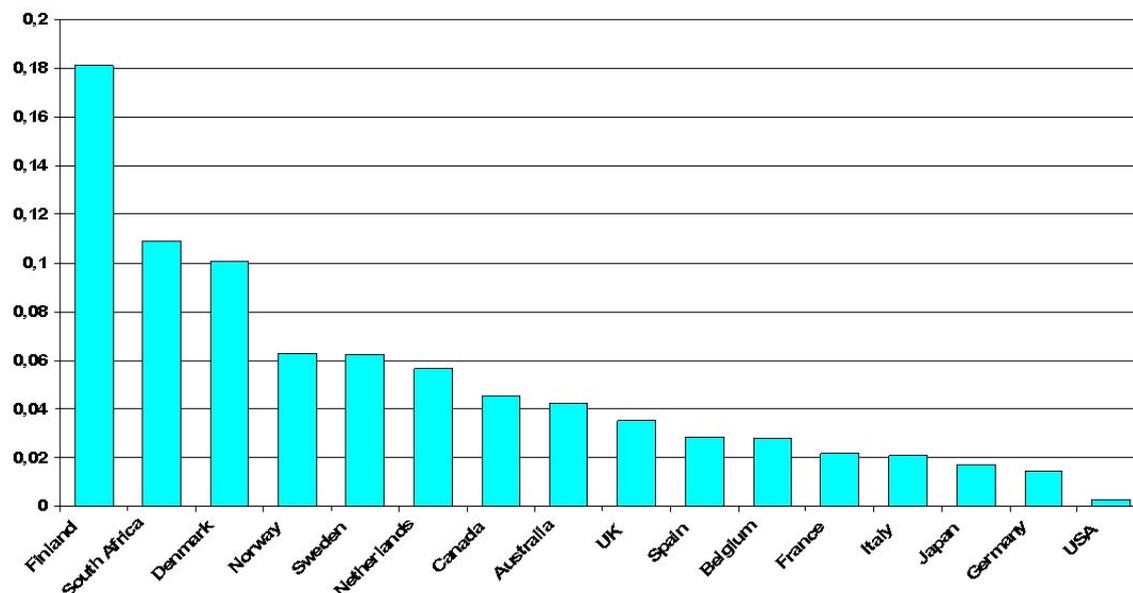


In 2005 more than 52 percent of the Fortune 250 produced non-financial reports (compared to 45 percent in 2002). In addition, the number of reporters among the top 100 companies in the 16 countries surveyed by KPMG has also increased over time, from 23 percent in 2002 to 33 percent in 2005. Based on these findings, the KPMG report concludes: »Corporate responsibility reporting in industrialized countries has clearly entered the mainstream« (KPMG 2005, p.3).

Nonetheless, growth in the number of non-financial reports remains highly concentrated in the OECD world. NFR has seen most significant growth in the European Union (EU). Within the EU, the United Kingdom is the clear leader. In 2005 more than 14 percent of all reports worldwide were

published by companies based in the United Kingdom. Today over 70 percent of the top 100 companies in the United Kingdom produce non-financial reports. France, Spain, Italy and Canada have seen the most impressive growth rates in non-financial reports between 2002 and 2005.¹⁹ If economic size is also taken into account, growth in reporting has been comparatively slow in the United States (see figure 2.1c). Based on the data provided by CorporateRegister.com, in 2005, only 8 percent of all non-financial reporters were American.

Figure 2.1c Number of Sustainability/CSR Reports published per US\$ 1 billion GNI

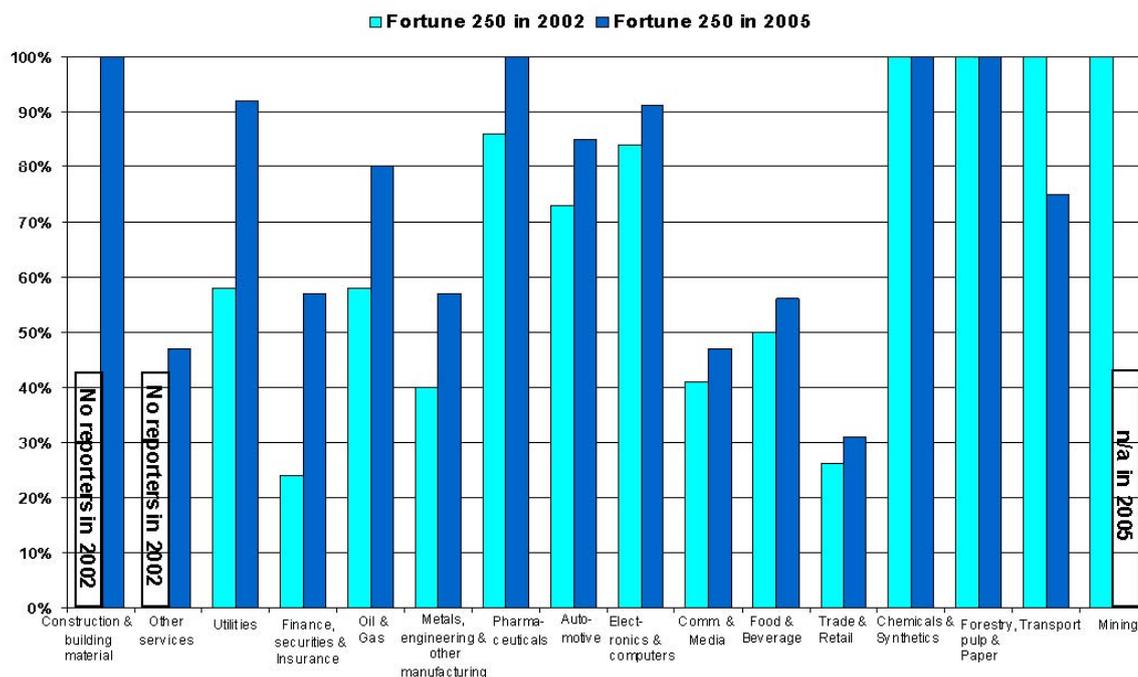


The comparatively extensive use of NFR in industrialized countries is not surprising. Companies in these countries can commit more resources to sophisticated reporting systems that require upfront investment, or in some cases, result in switching costs for the introduction of new reporting tools. In addition, companies in the OECD world tend to face significant pressure from an organized civil society that demands greater accountability and responsible corporate behavior.²⁰ As an internal impetus, company staff based in industrialized countries tends to exhibit post-material values and reward »good corporate behavior.«²¹

As Figure 2.1d demonstrates, the OECD growth pattern can be broken down even further across industry sectors. Growth in NFR among the Fortune 250 has been particularly strong in the chemicals, mining, oil and gas, forestry, pulp and paper, and utilities sectors. It has been comparatively weak in

the communication and media, construction, food and beverage, and trade and retail sectors (see KPMG 2005, p. 12; see also Pleon 2005, p.25).

Figure 2.1d: Growth in number of non-financial reporters across industry sectors among Fortune 250 in percent (data from KPMG (2005)).



As will be further clarified in section 3.2, the main initial driver behind NFR is stakeholder pressure on companies to become more transparent and accountable about their environmental and social behavior. Thus it is not surprising that the most publicly criticized sectors, in particular chemicals and mining, should display the strongest growth in the use of NFR. In addition, different industries exhibit different non-financial risk profiles. Even if NFR evolves from a tool used primarily for the deflection of stakeholder criticism, to a managerial tool designed for the analysis of non-financial risks, one would still expect significant variation in the implementation of NFR practices across industries.

2.2 NON-FINANCIAL REPORTING IN EMERGING ECONOMIES AND THE SME SECTOR HAS BEEN NEGLIGIBLE SO FAR; OVERALL GROWTH RATES APPEAR TO LEVEL OFF

While the basic quantitative indicators suggest significant progress in the expansion of NFR practices, we must nonetheless look closer at the empirical evidence to gain a better understanding of past NFR dynamics.

First, it is important to put the absolute number of non-financial reporters into perspective. The assessment of implementation depends on the performance benchmark. Most observers focus exclusively on very large multi-national companies (e.g. the Fortune 500), and, as noted above, the implementation of NFR practices has been strongest among them. In order to truly promote sustainable development, many would suggest that the NFR net needs to be cast wide enough to include all corporations, including small- and medium-sized enterprises (SMEs) or at least all of the approximately 37,000 transnational corporations (TNCs) operating in the world today (UNCTAD 2005). There is no obvious rationale to limit the drive toward NFR to include only the largest corporations that are, with few exceptions, based in the industrialized world. Yet the share of reporters among transnational corporations is currently estimated to be below 5 percent.²² In light of these data, an initially impressive number is revealed to be a comparatively small share of the potential application of NFR. Thus NFR remains an exception to the norm.

More significantly, the implementation of NFR practices poorly reflects the realities of the international economy in the age of globalization. Very few developing and emerging economies are included in regular surveys on NFR trends.²³ The comparatively low number of reporters, especially in the strategically important BRIC countries (Brazil, Russia, India, China), is particularly notable.²⁴ Yet

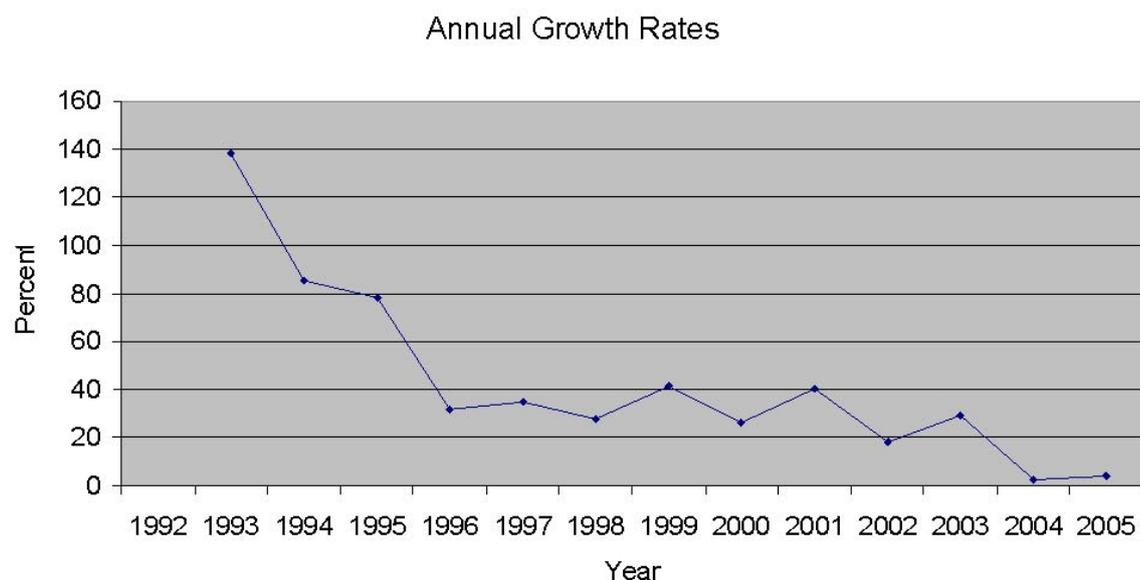
these countries, particularly India and China, make up an increasingly large component of the world economy.²⁵ Both India and China have experienced higher growth rates than the industrialized West during the past decade and have emerged as major destinations for foreign direct investment (FDI), thereby securing their statuses as major players on the international economic stage. According to some projections, the size of China's economy will outstrip that of the United States by 2015 (Maddison 2000). But strong economic growth in China and India is also accompanied by unprecedented social and environmental challenges, often with significant global ramifications.²⁶

The more substantial growth in the number of non-financial reporters among multi-national corporations based in OECD countries is largely a consequence of politics. Many NGOs find it easier (and for the sake of their legitimacy with domestic constituencies, also more important) to name and shame companies headquartered in the OECD world. As will be illustrated in section 3.2, public pressure has been one of the key drivers behind the reporting practices of multi-national companies. Such pressure is very low, or even absent, in developing and emerging economies. From a sustainable development perspective, however, the analytical focus on only multi-national corporations in OECD countries is misguided and potentially disastrous.

In addition to multi-nationals headquartered in the developing world, SMEs have by and large been excluded from the growth in NFR—in developing and developed countries alike. Systematic data on the reporting practices of SMEs do not exist, but without doubt, the number of SMEs in the pool of non-financial reporters is very small. Some observers (including several of our interviewees) suggested that it is illogical for SMEs to produce comprehensive non-financial reports.²⁷ Neither do they have the capacity to do so, nor would the correlating investment of time and money produce a good return from a sustainable development perspective.

And yet, others argue that from a sustainable development perspective, the lack of implementation of reporting among SMEs should be the very reason for concern.²⁸ SMEs in virtually all countries represent 50 percent or more of the economy in terms of GDP, and on average 60 percent of all employment.²⁹ In addition to being a significant promoter of growth and employment, the SME sector is also confronted with a broad variety of social and environmental issues. In fact, some studies suggest that SMEs are collectively responsible for roughly 70 percent of all global pollution (Swank 2000).

Figure 2.2a: Annual percentage growth rates in number of reporters (based on data provided by CorporateRegister.com)



Finally, there is evidence to suggest that the overall growth rate in the number of non-financial reporters is leveling off. As noted earlier, between 1992 and 2005, the number of non-financial reports published per year grew from 26 to 1,906 (signifying a compound annual growth rate of roughly 39 percent). However, closer inspection of the growth curve in the number reports reveals that in more recent years, the pace of annual growth has significantly slowed. Between 2000 and 2005, the number of reports has only increased from 830 to 1906, resulting in a compound annual growth rate of roughly 18 percent.

A review of annual growth rates in NFR conveys a similar picture (see Figure 2.2a above). These figures show a fairly continuous drop in annual growth rates; such a drop is not surprising. Annual growth rates are bound to decline as it becomes progressively harder to sustain such rates from a continuously higher plateau. The question is, however, how these growth rates will develop in the future and namely, whether we can expect exponential, linear or stagnant growth. A report prepared by the ACCA surveying NFR trends concludes: »While significant growth continues in individual regions, evidence suggests that globally the amount of reporting is leveling off: after significant growth in the late 1990s, momentum has been slowing since 2000.« The report further adds: »[...] There has been a marked decline in the rate of take-up, however, and it appears that while the larger and more high-profile companies are already responding to these growing demands for increased transparency, fewer newcomers are accepting the challenge« (ACCA 2004, p.8). In this context, it is useful to reflect again on the results of the triennial KPMG survey on NFR. The latest survey finds that in some countries, the absolute number of non-financial reporters actually declined between 2002 and 2005. These countries include some of the Scandinavian countries and the United States.³⁰

Of course the inference of a larger trend from the analysis of two data points entails risk. KPMG notes that »complex factors« may be at work that could not be explored sufficiently in-depth in the context of their report (KPMG 2005, p.19). Some of our interviewees hypothesized that the drop in absolute numbers of reporters may have been a result of extensive mergers and/or acquisitions, which in turn have reduced the overall number of potential reporters. Yet this logic does not seem entirely convincing, and it certainly does not hold true for all countries. Some interviewees referred to the particularities of American regulatory culture and business-government relations, stating: »It is a compliance culture. [American companies] only do what they have to do. [...] They will only do what they are being told. If it's not illegal, it's ok.«³¹ Other interviewees explained the drop in reporting by the lack of benefits emerging from NFR, thus raising fundamental doubts about the prospects for its future use: »[...] the benefits [of NFR] that so many people have been talking about simply have not been realized. There is a supposed business case but many companies have not yet found it. [...]«³² Unfortunately it is beyond the scope of this report to explore these issues in any further detail. However, they certainly merit closer inspection in future research.

2.3 REPORTING HAS BECOME MORE COMPREHENSIVE, EXTERNAL ASSURANCE MORE WIDESPREAD

Turning to qualitative indicators, two important developments suggest that the NFR realm has not just widened but also deepened.

First, the KPMG survey shows that the structure of reporting has changed substantially over the years. Whereas in the 1990's most reports focused on environmental indicators only (»environmental reporting«), today reports tend to be more comprehensive and bring together economic and social, as well as environmental data (»sustainability« or »triple bottom line reporting«).³³

Second, NFR has moved toward the external assurance of reports. This practice is believed to increase the quality and reliability of NFR. The ACCA report notes that in 2003, »[...] nearly 40% of all reports included external assurance compared with only 17% 10 years previously« (ACCA 2004, p.8). Similarly, the KPMG survey of NFR trends notes that »[t]he number of reports with a formal assurance statement has increased slightly to 30 percent (48 reports) from 29 percent in 2002 for the G250 and to 33 percent (171 reports) from 27 percent in 2002 for the N100« (KPMG 2005, p. 30).

Both of these developments suggest that the overall quality of reporting has improved in recent years. Reporting appears to have become more comprehensive and, as a result of external assurance, more reliable.

2.4 EXTERNAL ASSURANCE IS OFTEN SELECTIVE AND THE QUALITY OF REPORTING IS STILL GENERALLY LOW

There is evidence however, to put some of the positive trends with regard to qualitative developments in the NFR realm in perspective.

First, while highlighting the growing practice of external assurance for non-financial reports, the KPMG report also stresses the considerable variation in the scope of assurance exercises, as well as

variation in the tools and methodologies used. In most cases, assurance is only conducted for parts of the report. Only 22 percent of reports with assurance received assurance for the entire report (KPMG 2005, p.30). Overall, most reports conclude that growth in assurance has significantly slowed down in recent years. As an exception though, a survey conducted by the German consulting firm Pleon reports that a majority of respondents (59 percent) still demand external verification of non-financial reports (see Pleon 2005, p.23).

During interviews conducted for this study, many company personnel argued that a major reason for the slow-down in the use (and in some cases even decline) of external assurance is the clear lack of benefits to companies. One interviewee noted: »We have never been asked by our stakeholders to conduct external assurance. [...] When we did it anyway, we did not get any feedback. I don't think this is a good investment of our time and money.«³⁴ Likewise, the authors of the KPMG report conclude that »[...] further thought is needed to develop focused and rigorous assurance processes that are useful and meaningful for both reporters and report users« (KPMG 2005, p.30). But various interviewees pointed to a different problem undermining assurance credibility: the widespread lack of trust in company reporting and distrust of major assurance providers. One interviewee emphasized: »We have a significant trust problem in NFR. The only way we can get a handle on the trust problem is through credible assurance mechanisms. [...] But even then many NGOs do not trust assurance provided by the big assurance firms such as KPMG. They are often seen as part of the problem, and not part of the solution.«³⁵

Second, the overall quality of reports (as a function of content and reliability) remains very low, as most ratings and comparative assessments of non-financial reports verify.³⁶ Progress in terms of reporting quality appears to be limited to a select few reporters. Over the past 9 years, UNEP and the consultancy SustainAbility published a series of reporting benchmark studies. These reports indicate significant improvements in a number of companies issuing non-financial reports (see UNEP and SustainAbility 1997, 2000, 2002 and 2005. See also Context 2006).³⁷ However, reporting surveys also reveal across-the-board deficiencies. For example, the study prepared by ACCA concludes that many reports do not really address relevant issues: »Even in companies which have well-established reporting processes, the challenge remains to focus on completeness. [...] Many reports fail to address the biggest sustainability issues such as sector-specific impacts and global issues such as dependence on fossil fuels, human rights, and labor issues« (ACCA 2004, p. 15). George Dallas, from the rating agency Standard & Poor's, concurs: »We also feel that we are challenged with the ability to separate form from function in sustainability reporting. Our analysts are often frustrated with regard to the interpretation of sustainability reports. Many appear the same, laden with wholesome images and platitudes. There is a notable tendency for such reports to read like public relations polemic rather than risk assessment reports« (quoted in SustainAbility, UNEP and Standard & Poor's 2004, p.12).

A report prepared by SustainAbility in collaboration with UNEP and Standard & Poor's (2004)³⁸ indicates, on the one hand, that »[l]eading companies have made significant improvements in the quality of their NFR since 2002.« On the other hand, the report also concludes, »[e]ven the best reports suggest continuing, fundamental weaknesses in companies' governance and, most particularly, in their ability to identify, assess and manage priority non-financial issues« (SustainAbility, UNEP and Standard & Poor's 2004, p.4). In addition, SustainAbility's Peter Zollinger notes in the report: »Disappointingly, explicit and clear references to long-term strategy and risk management in the particular language of these disciplines are rare, even among the Top 50 reporters. The thinking isn't simply joined up. It's very hard to see where sustainability touches directly on the tasks of these mainstream governance bodies and core functions of direction and oversight. Generally, it seems, sustainability is dealt with elsewhere in the companies, as if these worlds never touch one another« (ibid. p. 11). While the overall quality of reporting may have improved somewhat, it did not impact corporate strategies and practices.³⁹

In sum, while there is a popular perception that NFR trends are characterized by strong growth and significant improvements in report quality, in-depth analysis reveals a more cautious picture. Reporting has seen fairly strong growth among large MNCs headquartered in industrialized countries, but this brief review offers strong evidence to indicate that NFR remains a niche practice: there is a sheer lack of NFR in developing or emerging economies; the number of SMEs reporting on social and environmental indicators is very low; and finally, while the quality of reporting has improved among a small number of increasingly »proficient« reporters, the general quality of NFR remains at a low level.

Even for companies that prepare thorough non-financial reports, such reporting is not linked to strategic decision-making. What analytical tools are needed to understand the underlying dynamics of NFR and predict how strong and sustainable the future utilization of NFR practices will be? The following section presents one framework for understanding the overall dynamics of NFR.

- ¹⁰ Note, however, that there is also potential for self-regulation. For example, the Johannesburg and Bovespa stock exchanges now require their listed companies to produce non-financial reports and to commit to the UN Global Compact principles.
- ¹¹ The French reporting requirements are not GRI compliant. (Kindly pointed out by commentator to draft GRI Review. Comment No. 2. Submitted on 17 July 2006. On file with authors.)
- ¹² For an overview of the OECD world see KPMG 2005, pp. 40-42.
- ¹³ See <http://www.globalreporting.org/guidelines/2002/dglossary.asp> (accessed 19 September 2006).
- ¹⁴ See http://www.johannesburgsummit.org/html/documents/summit_docs/2309_planfinal.htm, in particular paragraph 17 (accessed 15 May 2006).
- ¹⁵ Past performance described as »phenomenal« in Gray and Bebbington (2000, p.15).
- ¹⁶ See <http://www.corporateregister.com> (accessed 19 April 2006).
- ¹⁷ As can be seen in Figure 2.1a, growth of NFR has not been linear. There were certain years when growth rates were either significantly higher or significantly lower than the average 34 percent. The reasons for these swings are most likely complex and cannot be considered in this report.
- ¹⁸ The number of countries included in the triennial surveys has changed over time. The most recent report covers 16 countries. The previous report (KPMG 2002) covered 19 countries.
- ¹⁹ However, compared to most other OECD countries, all of them have started from a relatively low plateau in 2002, so in effect these growth rates may simply reflect an overdue catch-up process.
- ²⁰ That point was underlined by two of our interviewees. Interview conducted by the authors on 5 September 2006 (interview No. X4) and interview conducted by the authors on 12 September 2006. Interview No. X3.
- ²¹ At the same time, it is also important to note that there is quite significant variation in levels of take-up of NFR among industrialized countries. As noted above, Japan and the UK clearly stand out as the two countries with the highest penetration rates of NFR (80 percent and 70 percent of top 100 companies report, respectively). Canada and France are quite distant followers (40 percent and 41 percent respectively). This variation is most likely caused by a complex set of factors, including for example country-specific regulatory traditions, business-government relations, specific historical events (e.g. crises).
- ²² However, we do not have specific information about the structure of the current reporter base, that is, it is not clear how many existing reporters in the CorporateRegister.com database can be categorized as TNCs.
- ²³ The database CorporateRegister.com provides data only for Brazil and South Africa. The only emerging economy covered in the KPMG surveys is South Africa.
- ²⁴ Brazil is an outlier in this group of countries. Take-up in NFR practices in Brazil has been comparatively strong, at least when compared to China, Russia and India. According to various interviewees, take-up of NFR is driven to a large extent by the vibrant CSR community in this country that has emerged at least partly in response to the huge discrepancies in wealth and living standards that characterize Brazilian society.
- ²⁵ One commentator to a draft version rightly pointed out that many companies in these countries are also not near to complying with international standards in the accounting field. Written commentary No. 2 to draft review of the GRI (submitted 17 July 2006). On file with the authors.
- ²⁶ This year's »State of the World« report published by the WorldWatch Institute concludes: »Can the world's ecosystems withstand the damage—the increase in carbon emissions, the loss of forests, the extinction of species—that are now in prospect? The answer is no ... [the] ability to provide free ecological services, from erosion control to climate stabilization to flood control, has been seriously undermined—even as the world's two most populous nations were just arriving at the center of the global economic stage« (Worldwatch Institute 2006, p. 15).

- ²⁷ This view was supported by a member of the GRI Board in his written comments to the draft GRI review (submitted 17 July 2006). Comment No. 2. On file with authors.
- ²⁸ That point was made by several of our interviewees. The GRI itself also views take-up of reporting among SMEs as important (see <http://www.globalreporting.org/resources/06smallerEnterprise.asp> (accessed 18 September 2006)).
- ²⁹ UNIDO reports that in most countries SMEs constitute, on average, 90 percent of businesses and generate 50 to 60 percent of employment. See UNIDO and UN Global Compact (2004, p.1).
- ³⁰ The ACCA report notes that growth in the number of non-financial reporters is becoming »static« (ACCA 2004, p.8).
- ³¹ Interview conducted by the authors on 30 March 2006. Interview No. 21.
- ³² Phone interview conducted by the authors on 19 April 2006. Interview No. 3.
- ³³ In addition to a change in structure, the format of NFR has evolved. In particular, there has been a notable trend towards electronic (i.e. PDF and online) reporting. A report by ACCA shows that the number of electronic reports has grown substantially during the past years, from less than 10 in 1995 to more than 1,200 in 2003. The results of our own survey show that 39 percent of all respondents who do publish non-financial reports publish them online; 53 percent publish the report as a PDF. Note that some institutions publish hardcopy as well as PDF or online reports. However, another survey shows that a majority of non-financial report readers actually prefer hard-copy editions rather than online versions of reports (only a third of respondents indicate that they prefer an online version, see Pleon 2005, p. 56). Various interviewees made similar observations and also noted that hard-copy reports will remain important for companies because they represent the social and environmental »business card« of the institution.
- ³⁴ Phone interview conducted by the authors on 24 January 2006. Interview No. 38.
- ³⁵ Phone interview conducted by the authors on 10 April 2006. Interview No. 31.
- ³⁶ For example, for a review of NFR in Australia see *Department of the Environment and Heritage 2005*; for Germany see *Future and IÖW 2005* (see also online at <http://www.ranking-nachhaltigkeitsberichte.de> (accessed 7 May 2006)); for Canada please see *Stratos 2005* (also available online at <http://www.stratos-sts.com/pages/publica014.htm> (accessed 7 May 2006)).
- ³⁷ That point was also made by several of our interviewees. Interview conducted by the authors on 5 September 2006 (interview no. X4); interview conducted by the authors on 29 August 2006 (interview no. X2); phone interview conducted by the authors on 20 April 2006 (interview No. 6).
- ³⁸ The report »Risk & Opportunity« is published in the series »Global Reporters,« a biannual survey of NFR that has been published since 1994.
- ³⁹ On the lack of integration of NFR into business strategy, see also Moneva, Archel and Correa (2006).

3 WHAT MOTIVATES NON-FINANCIAL REPORTING? STAKEHOLDER PERCEPTIONS VERSUS KEY DRIVERS AND LEVERS BEHIND REPORTING

Predicting future trends in NFR is a more complex endeavor than assessing past developments. NFR is a relatively new phenomenon, heavily influenced by political currents that can change quickly, driven by electoral developments or, often more significant, crises.⁴⁰ Extrapolating from past trends can therefore produce misleading results.

3.1 STAKEHOLDER PERCEPTIONS: NON-FINANCIAL REPORTING WILL SEE FURTHER GROWTH

What is the likely future of NFR in a voluntary context? It is widely accepted, especially among CSR practitioners and researchers, that NFR is a growing trend. With few exceptions, all of our interviewees agreed that the number of companies and institutions that report will grow significantly in the future. There were also a small number of critics among our pool of interviewees, however. These critics can be categorized into two groups. First, there were interviewees who argued that the low relative number of non-financial reporters and the frequently poor quality of reporting indicates NFR is not a serious business but rather a public relations stunt performed by a select number of companies that have experienced significant public pressure from stakeholders (see also Doane 2004). Some interviewees also noted that NFR, much like the social audits popular in Europe during the 1970's, may simply wither away as stakeholder pressure dissipates, pioneers disappear and attention moves to a new »fad.« The second group of critics among our interviewees believe NFR will remain relevant, but only for a small subset of companies that either must respond to continuing stakeholder pressure (especially in industries with high and very visible environmental or social impacts, such as mining, oil and gas, etc.) or market their company as a »sustainability leader« to appeal to specific portions of the consumer base (see also Vogel 2005). According to this second group, without a mandatory framework, NFR will remain a fringe practice.

Our non-representative survey offered a relatively cautious perspective on expectations for future growth in NFR:⁴¹ Of our respondent pool, 37 percent expect the number of non-financial reporters to grow faster than to date; 52 percent of all respondents expect growth to continue at the same pace; and only 6 percent believe NFR trends will stagnate. It is important to note, however, that the ratio of business respondents among those who expect that NFR trends will stagnate is very high (11 percent). Significantly, no respondents expected a decline in the number of non-financial reporters.

In contrast to the interviews, the survey revealed a strong dichotomy among respondents when questioned about voluntary approaches to reporting (see figure 3.1b below). Survey respondents were more likely show pessimism about the future of voluntary reporting, as indicated by the 50 percent of all respondents who believe NFR will remain a niche phenomenon should it remain a purely voluntary practice. By contrast, 48 percent of respondents believe that NFR will emerge as a mainstream practice, even without a legally binding framework. Only 2 percent of respondents believe that NFR will disappear over time if it remains an entirely voluntary practice.

Figure 3.1a: The market for non-financial reporting has seen quite significant growth in recent years. What do you expect future market growth to be?

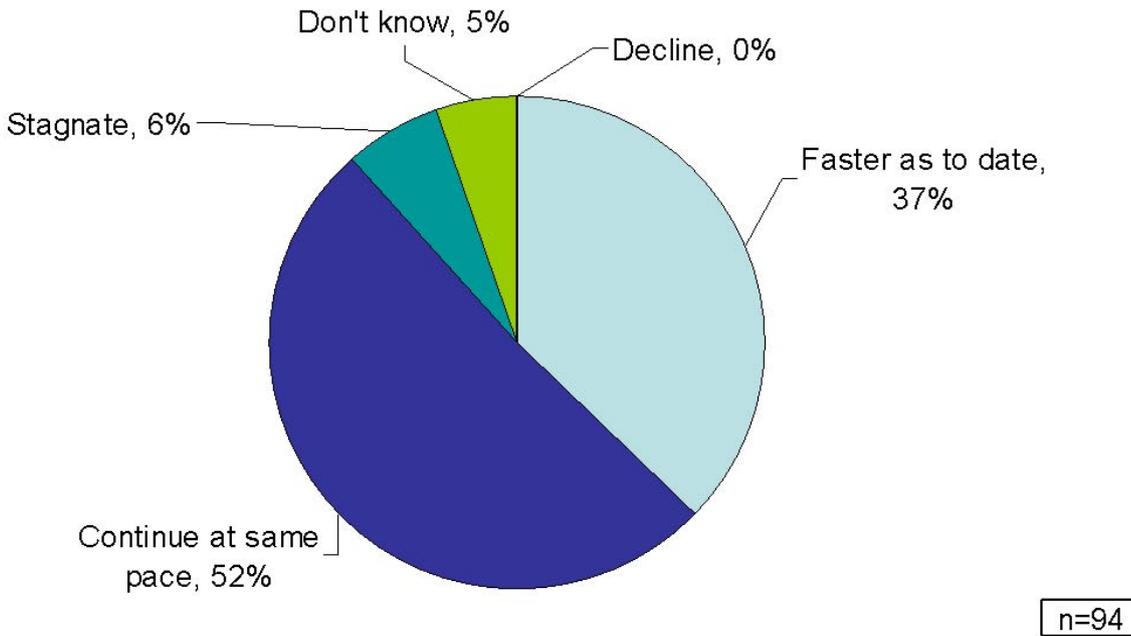
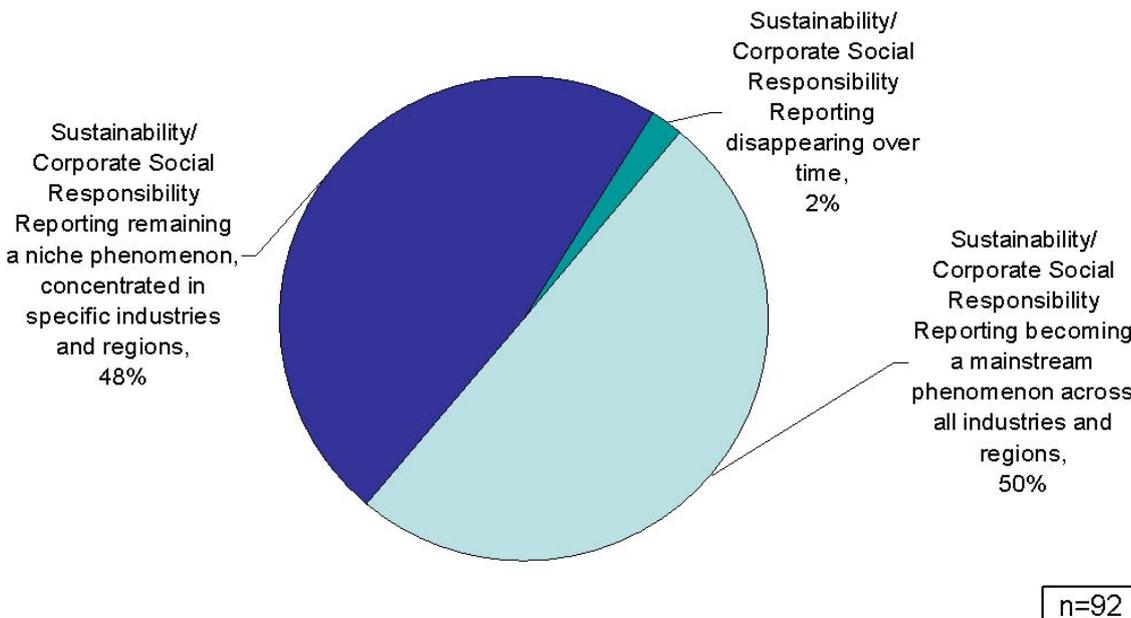


Figure 3.1b: Do you believe that a purely voluntary approach to non-financial reporting (as promoted by the GRI) will ultimately result in:



The different composition of the interview and survey group offers one possible explanation for this divide: The group of interviewees is biased toward »CSR insiders,« i.e. representatives of institutions that produce reports, many of which are also affiliated with the GRI (e.g. through membership in the Organizational Stakeholder (OS) Group) or work for consulting firms advising on NFR issues. For example, from our 49 interviewees, 14 either work for the GRI or actively serve on GRI governance bodies. More than half of our interviewees represent institutions that are members of the GRI's OS Group. The respondent group for our survey, by contrast, is more diverse. While over half of the respondent group works for institutions that submit reports, roughly 23 percent of respondents come from institutions that are members of the OS Group. As a consequence, interviewees generally exhibited significantly more optimism concerning the development of NFR and than did survey respondents.

Stakeholder expectations regarding the likelihood of NFR developments are important indicators for assessing future growth and can have real implications on actual growth rates. However, perceptions can also paint a misleading picture of underlying trends. In order to make more informed

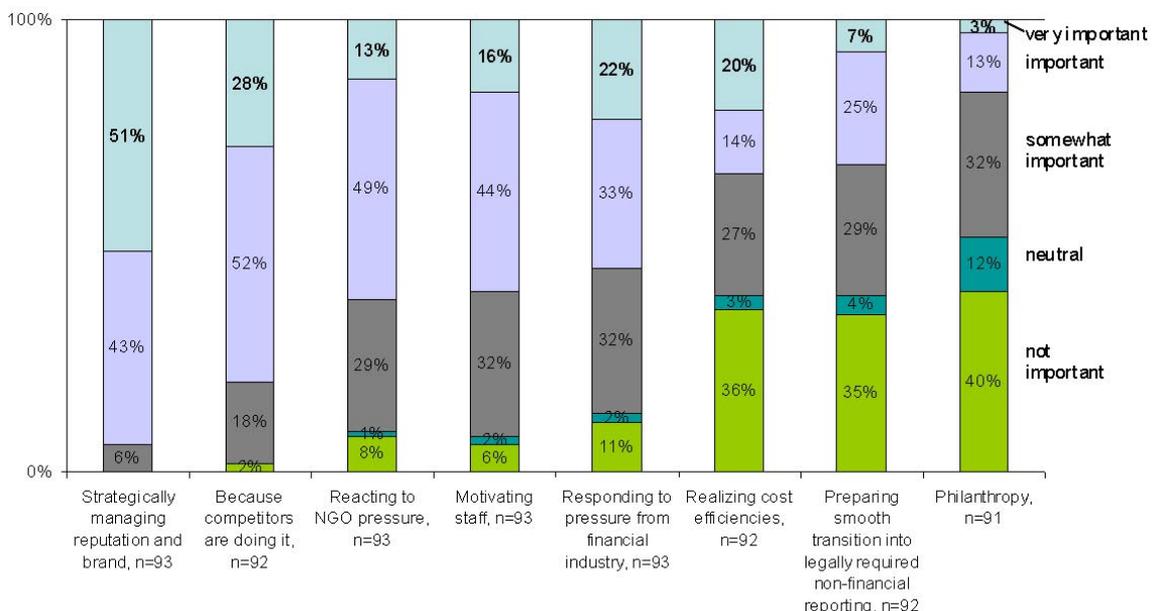
statements about the potential growth (or non-growth) of NFR in the future, it is crucial to understand the key drivers and levers behind NFR, as well as how they are likely to impact reporting practices of companies and institutions in the future. Some of the unfortunate characteristics of contemporary debates on CSR are that they inherently assume that sustainability issues will »become more and more important« for companies; that company executives ignore key social and environmental risks »at their own peril;« and that NFR is one key tool to respond to these new challenges. For example, an interviewee noted: »My sense is that social and environmental issues are becoming more and more significant for the corporate bottom-line and the executives increasingly realize that to be true. Long-term, there is no way around the sustainability challenge.«⁴² As impartial analysts, we must go beyond perceptions and assumptions in order to comprehend the factors that motivate and hinder the growth of NFR.

3.2 ANALYZING DRIVERS AND LEVERS BEHIND NON-FINANCIAL REPORTING

When analyzing the factors that influence NFR trends, it is instructive to differentiate between drivers and levers. To better understand the two concepts, it is helpful to consider the metaphor of a car. A lever is a mechanism employed to induce action indirectly, for example, by pressing the gas pedal. Drivers, on the other hand, are direct forces, such as the fuel that sets an engine in motion.

First turning our attention to drivers, we ask, what are the key drivers that prompt a company to engage in NFR? How are these drivers likely to evolve in the future? Various surveys have been conducted asking respondents about their motivations for producing non-financial reports (see for example KPMG 2005, p.18-19 and Pleon 2005, p.17). From our background research and interviews, we have created a list of the eight most frequently mentioned factors.⁴³ We used the survey to test what significance respondents attach to each factor by asking the following question: »What do you think drives other institutions to produce sustainability/CSR reports?« The survey results for that question are summarized in Figure 3.2a below.

Figure 3.2a: What do you think drives other institutions to produce Sustainability/CSR reports? (in percent of respondents).



Respondents regard the strategic management of brand and reputation as by far the most significant driver behind NFR for other institutions (51 percent »very important,« 43 percent »important«). Therefore, a broad majority of respondents believe NFR is a reactive, rather than a proactive measure. This observation also underscores a point made earlier—namely, that NFR is a practice confined almost entirely to companies confronted with significant stakeholder pressure, either because of having a high-visibility brand or because of the direct impacts of company activities on social and/or environmental conditions.⁴⁴ This can apply to entire industries (e.g. the extractive industries, chemicals), but most likely varies substantially across as well as within industries.

Respondents see pressure from competitors as the second most important driver behind NFR of other institutions (25 percent »very important«, 53 percent »important«). The exact rationale behind this conclusion is not entirely clear. Some interviewees suggested that their institutions initiated reporting, at least in part, because direct competitors were doing it as well. As a consequence, corporate leaders feared they would suffer a competitive disadvantage if they did not do the same.⁴⁵ Some companies also seem to engage in preemptive reputation management. If direct competitors in the industry engage in reporting, there may be a strong risk that reporting laggards will be publicly branded in case of a major environmental or social crisis. Others suggested that there might have been a herding effect at work. One interviewee noted along these lines: »Some simply assumed that if the others do it, they have to do the same. They jumped on the bandwagon. [...] We always presume that we are dealing with rational people, rational decision-makers in this context. That is not always true. There clearly are herding effects at work in the sustainability world.«⁴⁶

The third most significant driver emerging from the survey is »Reacting to NGO pressure« (13 percent »very important«, 49 percent »important«). In fourth place is »Motivating staff« (17 percent »very important«, 44 percent »important«), followed by »Responding to pressure from financial industry« (22 percent »very important«, 33 percent »important«). »Realizing cost efficiencies« (20 percent very important, 15 percent important) follows closely as sixth, Respondents believe that the two least significant drivers are »Preparing smooth transition into legally required reporting« (7 percent »very important«, 25 percent »important«) and Philanthropy (3 percent »very important«, 13 percent »important«).

The results of this survey reflect perceptions among respondents about the significance of drivers behind NFR for other institutions and indicate that an overwhelming majority of respondents believe the management of brand and reputation is the most important driver behind NFR. But in order to adequately assess the importance of each of these factors for the future development of NFR, it is important to disaggregate them further and consider their likely development and impact during the coming years.

3.2.1 NGO PRESSURE FOR NON-FINANCIAL REPORTING APPEARS TO DECLINE

Stakeholder pressure has been one of the key drivers pushing companies to engage in NFR. Pressure by advocacy NGOs has driven much of this pressure by generating concerns among businesses about brand value and reputation. But how is stakeholder pressure likely to evolve in the future? Will it increase, remain the same, or even stagnate? Can stakeholder pressure lead to a broader engagement of companies in reporting?

In this context, two kinds of drivers can be distinguished: pressure organized by advocacy NGOs, and pressure on companies as a result of changing consumer behavior. Based on this distinction, we asked two sets of questions: First, how strong is the interest and capacity among NGOs to keep up (or even increase) the pressure on companies to report on non-financial indicators? Second, how strong is interest among consumers in NFR and what is the premium consumers are willing to pay for companies to produce non-financial reports (either in terms of higher product prices or by sticking with a particular brand)?

With regard to the willingness and capacity of NGOs to maintain pressure on businesses to report non-financial activity, there is no systematic evidence available that would allow us to make a conclusive statement (e.g. survey data). There has been significant engagement by NGOs in all facets of the GRI's work, including most recently in the development of »G3 Guidelines.« This engagement indicates the continuing interest of civil society in NFR, but is an insufficient indicator on which to base sound predictions concerning impact of future pressure (or lack of pressure) from the NGO community.

Despite significant cooperation between NGOs and the GRI, there are various indicators to suggest that interest in NFR may be tapering off in the NGO community. Of eight NGO representatives with whom we asked for interviews, three declined to be interviewed because of a lack of interest. One of them noted: »We have wasted so much time with this NFR business. [...] What have we gotten out of it? Not much I think. Sometimes even less than that—we have diverted scarce resources away from really important things. [...] We need to focus the few resources we have on the things that really have impact.«⁴⁷ A interviewee noted on this issue: »People simply do not read these reports. NGOs focus on those companies material to their mission. And rather than looking at the reports these companies

publish, they look at what these companies actually do.«⁴⁸ One NGO representative added a comment to the survey: »The sustainability leaders are getting tired of reporting, as are key stakeholders. After all, you do not fatten a pig by weighing it. We should not confuse disclosure about performance with the performance itself.«⁴⁹ Finally, an interviewee who has followed CSR issues for many years, including NFR, noted: »I just don't see that the drivers behind reporting are that strong. Take the NGOs. I think we are now living in a wholly different world. NGOs have become much smarter. They know that these voluntary reports are not really key for their advocacy work. They look for different and potentially more effective venues to get their message out.«⁵⁰

While there is no systematic evidence to indicate the current readership of non-financial reports, with few exceptions, all interviewees consulted for this study believe these reports are rarely, if ever, studied in any detail. During interviews, various NGO representatives noted that they might read reports very selectively, but that they usually try to rely on independent sources when evaluating the social or environmental performance of a company. Many NGOs also lack the expertise to properly assess a non-financial report. Moreover, one commentator suggested that NGOs might have a material disinterest in publicizing positive indicators in non-financial reports: »Most NGOs tend to be focused on one topic and as non-financial reports tend to be general in nature, they have little incentive to spend time on reporting companies which tend to be doing the right things. 'Good news' is not helpful to their cause. This is reflected in companies finding it hard to get the attention of NGOs in their continuing multi-stakeholder engagement process. Suggestions that companies reimburse the time costs of NGOs engaging have not been well received.«⁵¹ The fact that the corporate world does not seem to feel much pressure from NGOs to conduct external assurance, as mentioned above, further underscores these points.

However, it is important to interpret the findings from our interviews with great care. One reason is that, as a commentator noted, »Advocacy NGOs are self-reporting here. Be careful in believing they are giving you their candid views. Their role is to be sceptical. Look at the BankTrack report on NFR reporting by Equator banks. It demonstrates that they read all the reports.«⁵² It is additionally evident that NGOs see it as a success that many companies have started to report on non-financial indicators. But our interviews suggest they are also unsure about the value of NFR and its impact. NGO critics of NFR allege the reports have no value if they are exclusively based on input provided by the reporting company: »There is very little trust among NGOs in what companies report on. [...] There is a big gap between non-financial reports and the actual reality.«⁵³ This is not to suggest that NGOs will no longer monitor and pressure companies with regard to their social and environmental behavior. However, the comments do suggest that formal NFR is increasingly looked at as just one, and potentially not the most effective, advocacy tool among NGOs. Our research suggests that NGOs are becoming less enthusiastic about NFR.⁵⁴ Some pressure is likely to remain, especially on the »usual suspects« in highly exposed and visible industry sectors, but the key player in putting NFR onto companies' agendas is losing interest in the issue, focusing instead on alternative tools and avenues to induce change.

On the consumer end, there currently exist no survey data that would provide an indication of what customers think about non-financial reports, or whether they are even aware that some companies produce these reports. Some surveys demonstrate that certain segments of the consumer base value socially responsible behavior. But responsible corporate behavior can be demonstrated to consumers in many other and more tangible ways (see e.g. Vogel 2005, pp. 49ff; De Pelsmacker, Driesen and Rayp 2005).

3.2.2 REALIZING COST EFFICIENCIES WILL REMAIN A WEAK DRIVER BEHIND NON-FINANCIAL REPORTING

There is some anecdotal evidence that NFR can generate cost savings and/or better corporate performance. One commentator to the report noted for example: »What you measure, you change. At [...], before we began measuring GHG emissions, we did not know that with a little bit of effort we could reduce them in our buildings. We set a target of 15% reduction that we were able to meet easily. That is a cost saving that [our institution] cares about.«⁵⁵ However, no systematic data is available that would allow us to make a conclusive statement about the importance of this driver. None of our interviewees suggested that cost efficiencies served as a significant driver for reporting. It should again be emphasized that if there is potential for cost savings, it probably applies with variation across industry sectors and regions. The potential to save money as a result of more efficient use of energy, for exam-

ple, is likely to be much smaller in the banking and finance domain than it is in steel production. By the same token, efficiencies are probably easier to generate in production facilities in developing and emerging economies, rather than in the industrialized world.

Therefore, we conclude that the realization of cost efficiencies may have been a welcome—if often unintended consequence—of the introduction of NFR systems in some companies, but that it is unlikely to serve as a powerful inducement for the broader implementation of NFR practices.

3.2.3 STAFF MOTIVATION APPEARS TO GAIN IN IMPORTANCE AS A DRIVER, BUT OVERALL IMPACT REMAINS UNCLEAR

One of the most significant developments in recent years in NFR is the shift in audience. At the time of development, most non-financial reports were directed at external stakeholders to provide them with information about the social and environmental practices of the reporting company. Increasingly, however, non-financial reports are also directed endogenously as part of a company's efforts to motivate and attract new staff.⁵⁶ Various interviewees (though by no means a majority) noted that non-financial reports have proven to be very effective tools in educating staff and in building internal support for CSR initiatives.

So far we lack data to trace this trend in a systematic manner. Nor can we accurately assess the effectiveness of non-financial reports in motivating existing staff or attracting new staff. On this last issue, however, there is some evidence that new management recruits increasingly put a premium on the positive reputation of a company (see e.g. Skinner 2006). Yet the evidence also suggests that, just like consumers, current and prospective staff members are interested in more immediate and tangible company practices, including potential ways to become involved, rather than the availability or absence of non-financial reports. Ultimately, it remains unclear what potential staff motivation has as a driver of NFR.⁵⁷

3.2.4 IMPACT OF FINANCIAL MARKETS ON INCIDENCE OF NFR WIDELY OVERESTIMATED

There is a popular perception in CSR circles that financial markets are emerging as the key driver behind the decision of companies to produce non-financial reports. Our interviewees, for example, overwhelmingly agreed that financial investors are the most significant force driving the development of NFR. As testament to this belief, one interviewee proclaimed: »It is no longer NGOs who provide the push behind sustainability reporting. Much more important today are financial analysts who seek out information about non-financial risks.«⁵⁸ Another interviewee agreed: »Today, it's the financial markets who want companies to report. Just take the issue of climate change as an example, or corporate governance. They can no longer ignore these issues, and they know it. [...] The big investment houses are now becoming engaged, and that is a very promising development.«⁵⁹

As in previous cases, our survey results paint a different, and most likely less biased, picture. Contrary to popular perceptions, »Responding to pressure from financial industry« ranked only as the fifth most important driver (22 percent »very important,« 33 percent »important«) out of eight given options. Moreover, all those interviewed from financial services firms unanimously believe that financial markets will not provide a decisive push for reporting growth, at least anytime soon. There is little evidence to signify a growing interest among financial analysts in NFR issues. And there is even less evidence to suggest how that minimal interest might translate into more and better reporting by companies.

At this point, it is important to differentiate between two distinct components of financial markets: The Socially Responsible Investment (SRI) community, and the mainstream investment community.⁶⁰ The growth of the SRI industry is seen by many observers as the most important push behind NFR. Many of our interviewees argued that the SRI industry has made a significant contribution to increasing systematic reporting by companies. However, there is a tendency in the CSR community to overestimate the significance of the SRI industry as a driver of NFR.

Without doubt, the SRI funds critically rely on non-financial indicators to compile investment portfolios. However, instead of relying on non-financial reports produced by individual companies, SRI funds usually operate with questionnaires that companies fill out and return in order to be included in a specific fund or index. These questionnaires entail a broad variety of indicators aimed at assessing a company's non-financial risk profile, but the system lacks standardization because each SRI fund produces its own questionnaire.⁶¹ Non-financial reports and other publicly available data are only used to

augment the analysis and eventual rating. The GRI may provide companies with incentives to improve systems for collecting and analyzing data on non-financial indicators, but these incentives do not necessarily translate into the production of a full non-financial report, published and freely available to interested stakeholders.

More importantly, it is necessary to put the SRI phenomenon into perspective. Reviews of the SRI industry show that its overall market share is small and its growth potential is limited. Some observers estimate the share of investments in SRI funds to be roughly 2 percent of all investments globally (Vogel 2005, p. 60). Early hopes that the SRI industry would grow quickly were driven by a belief in the ability of SRI funds to out-perform mainstream funds. However, the results have been disappointing. While on average, SRI funds do not perform poorer than most regular investments, there is no indication to suggest they are doing any better either (Vogel 2005, p.37). One interviewee from the SRI industry noted: »There is no higher return for sustainable investment. I was very enthusiastic 7 to 10 years ago. [...] We expected this market to grow fast and not to linger around 1 percent of all investments as is the case today. The reason is that our prognosis of higher returns has not materialized.«⁶²

Hoping to achieve greater returns and future growth, the SRI industry responded with a change of tactics. Whereas the initial strategy was to create SRI funds on the basis of more or less strict ethical, social and environmental criteria, the new approach is to create funds with »trend products« (water, alternative energy, etc.) and to select the top 3 performers in that market. In other words, the funds have moved away from »best in class« products (selection of the two »greenest« or most socially conscious companies from all sectors globally) toward topic-driven sustainable development investments (selection of the economically fittest turbine construction company in the wind energy market), without any concern as to whether the company reports on non-financial indicators or not. Rather than being ethically driven, these products represent new business opportunities that happen to lie in the sustainability domain. In essence, therefore, many SRI funds only include companies that are economically profitable. Although profits are not indicative of non-sustainable behavior, it is important to distinguish between what is understood by the CSR community and the wider public on the one hand, and what is actually practiced by the SRI community on the other.

The SRI industry has received extensive public attention, but is likely to remain a niche phenomenon unless it expands by applying mainstream principles, in which case its impact on the spread of NFR will be scarified. If the character of the SRI industry changes in this way, the long-term effects are not entirely clear, but it seems likely that a new generation of SRI funds geared toward mainstream industries would be much less focused on environmental or social standards.

With regard to pressure from mainstream financial analysts, the picture looks even less promising. A lot of hope was placed on the assumption that financial analysts would increasingly pay greater attention to non-financial risks. Indeed, there has been an indication that some of the big players in this arena, such as the investment bank Goldman Sachs, are becoming more engaged.⁶³ But overall, our interviews with financial analysts from mainstream investment firms suggest that interest in non-financial issues is currently negligible, if it exists at all. Non-financial risks have little if any visibility among mainstream investment analysts. The same often applies to companies. For example, the questionnaires prepared by companies for SRI funds are often completed by CSR departments rather than investor relations departments.⁶⁴

3.2.5 GOVERNMENT PRESSURE COULD BE A POWERFUL LEVER BEHIND NON-FINANCIAL REPORTING BUT GOVERNMENT ACTIVISM APPEARS TO BE LEVELING OFF

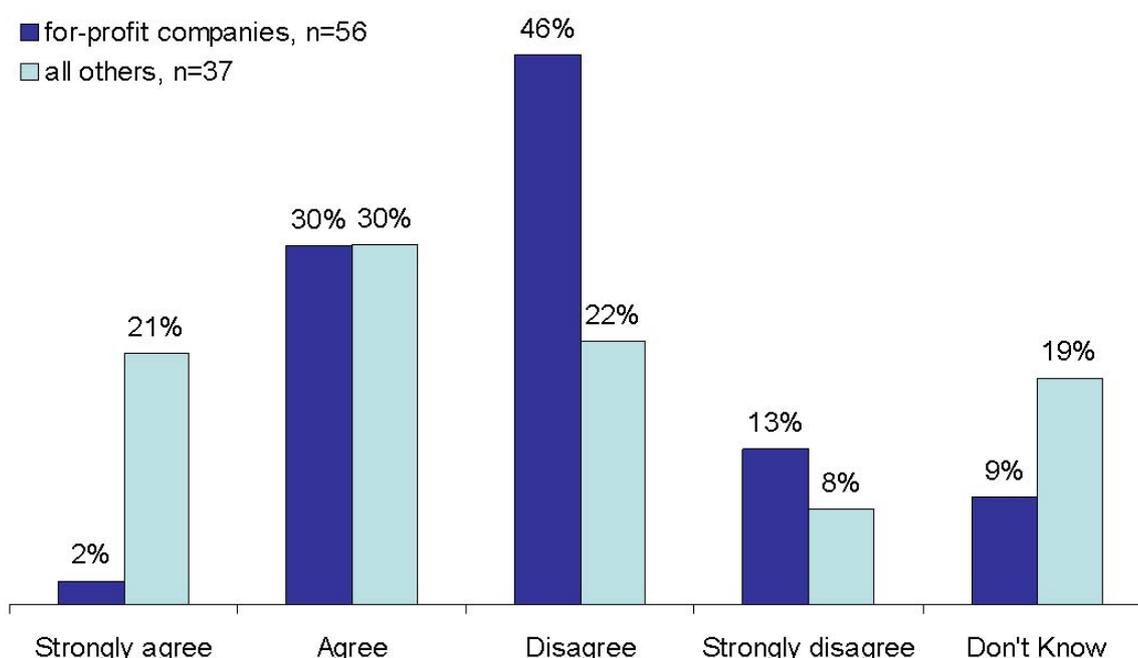
The role of governments in driving NFR is one of the most controversial aspects of international sustainability debates. Traditionally the dividing line has been clear: while much of the private sector is opposed to active government involvement (fearing costly regulation), many in the NGO community see mandatory reporting rules as the only way to turn NFR into mainstream practice. A study by the consulting firm Pleon finds, for example, that while the share of those who support a mandatory approach to NFR seems to have dropped since 2003, the majority of respondents still favor government action, as indicated by the following responses: making NFR mandatory for companies over a certain size, 2.8 percent; for all companies, 29.1 percent; for all multinational companies, 3.2 percent; for all publicly listed companies, 12.7 percent; or for all companies in specific industry sectors, 2.6 percent. Only 25.3 percent of all respondents opposed mandatory rules more generally (Pleon 2005, p.11-12). A

strong majority of respondents also believe that a move toward mandatory reporting would, on balance, generate more positive than negative results (ibid., p.13).

The results of our survey present a more complex picture: As noted earlier, our respondents were strongly divided. When asked what a purely voluntary approach to NFR will most likely result in, 48 percent of respondents answered that NFR will remain a highly limited practice, while 50 percent argued just the opposite—that it will become a mainstream phenomenon (see Figure 3.1b). When questioned as to whether they believe a mandatory approach to NFR is the only possibility for increasing its use, the survey results presented a similarly striking dichotomy: 47 percent of respondents »strongly disagree« or »disagree« with that idea, whereas 40 percent either »agree« or »strongly agree« (see Figure 3.2.5a below).

Singling out the responses from business representatives reveals a surprisingly similar distribution. We hypothesized that business respondents would oppose the idea of mandatory reporting more forcefully than the overall sample. While the majority of our interview partners from business did express negative views on mandatory approaches to NFR, others offered a more nuanced perspective. For example, at least two interviewees noted that, in the long term, a mandatory framework for NFR will be necessary in order to level the playing field and to ensure the reliability of reports.

Figure 3.2.5a For-profit companies vs. overall sample: mandatory approach to non-financial reporting will be the only possibility for a more systematic take-up of non-financial reporting?



There are several key points frequently stressed by the opponents of a mandatory approach to NFR. First, critics maintain that government regulation is simply not needed in this area since other, market-based drivers exist that provide sufficient incentives for firms to report. Second, critics fear that pushing the regulatory track will simply lead to a host of diverse national NFR regimes, thereby making international comparisons of non-financial reports difficult (if not impossible) and adding significant regulatory burdens on companies that operate across national borders. Third, critics charge that a mandatory approach to NFR would not allow for the continuous updating and improvement of NFR frameworks. In their view, the practice of NFR is still relatively young. As companies gather more experience with reporting, guidelines will have to be continually revised. This, they argue, would be much easier in a framework of voluntary participation, which gives NFR practitioners a seat at the table. A legislative process would result in long delays. Furthermore, the political process could fall prey to lobbyists and special interest groups, resulting in significant alterations and as a consequence additional inefficiencies, to a bill. Finally, it is also conceivable that a mandatory approach to NFR would reduce innovation in that area. Innovation is only likely to occur if companies push for higher benchmark standards in order to produce superior reports to those of their competition. In a mandatory framework, such competition is far less likely.

These criticisms, and particularly the risk of the emergence of divergent national NFR regimes, are legitimate and deserve to be taken seriously. At the same time, mandatory reporting legislation can also be a very effective lever through which an expanded use of NFR can be achieved. A legal requirement to report, backed up with a credible sanctioning mechanism, would certainly result in almost universal implementation.⁶⁵

So far, few governments have adopted a mandatory approach to NFR.⁶⁶ Our research suggests that approaches to mandatory regulation differ substantially across countries,⁷⁶ in terms of the scope of regulation, as well as the sanctioning mechanisms introduced to provide them with »teeth.«⁶⁷ Broadly speaking, one can identify a continuum of approaches: regulation is either completely absent (there are no mandatory reporting rules in place); piecemeal (NFR requirements are in place only for specific industry sectors or concerning specific issues); or comprehensive (production of a separate non-financial report required). Sanctioning mechanisms are either hard (non-compliance is sanctioned with fines or other measures enforced by courts) or soft (non-compliance is not sanctioned; reliance on »naming and shaming«).

In most countries, national laws and regulations are not designed to force companies to publish separate non-financial reports. Instead, they stipulate rules for specific items to be included in financial reports. These reporting requirements are frequently targeted at specific industry sectors (most commonly the extractive industries and chemicals). The United States is a case in point. There is no specific federal or state law in place that forces companies to produce separate non-financial reports.⁶⁸ However, there exist a host of industry- and state-specific regulatory reporting requirements.⁶⁹ Some analysts assert that growth in the number of separate non-financial reports in the US was driven by mandatory reporting precursors; »[in the US] regulated industry is subject to frequent mandatory environmentally related disclosure obligations. For individual companies, a formal corporate environmental report provides an internally-controlled opportunity to explain such publicly available information within the context of overall environmental management efforts (Case 2005, p.391). It is not clear, however, if this bandwagon effect applies to all sectors, or whether it is relevant in other countries.

Commentators have pointed out that the European Union's Transparency Directive constitutes a significant regulatory development at the European level to promote NFR.⁷⁰ The Transparency Directive⁷¹ is part of the Union's proposal to create a single market in financial services. The directive—formally adopted in 2004 for implementation in 2007—establishes requirements in relation to the publication of periodic financial reports for listed companies. It promises to enhance investor protection, but it still remains unclear if and how it will broaden the implementation or enhance the quality of NFR as promoted by the GRI. The Transparency Directive does not stipulate the reporting of social or environmental indicators. In fact, efforts by various parties (such as the European Social Investment Forum) to include such rules were defeated. An amendment asking companies to provide information in their annual reports about their approach to non-financial risks was also not included.⁷²

The way in which the directive will be implemented in national legislation varies across member states. However, the management report must, at a minimum, comply with EU standards, which call for a fair review of development and performance, as well as a description of the principal risks and uncertainties that companies face. Where necessary, the analysis should include key financial and non-financial performance indicators, including information relating to environmental and employee matters. However, this is a recommendation only. We were unable to interpret the vague formulation, »where necessary,« or how it may play out in practice. Concerning the likely impact of the Transparency Directive on growth in the comprehensive reporting of non-financial indicators, we suggest that potential implications are negligible.

It is also likely that the mere threat of a mandatory approach to NFR can provide companies with incentives to voluntarily produce non-financial reports. In a voluntary context, businesses still have the power to determine the scope and content of reports. In addition, there is no public sanctioning mechanism if companies do not produce reports, or if they provide false or incomplete data. According to various interviewees, this may have been an influential factor for the relatively strong growth in the number of non-financial reporters in the United Kingdom. For example, one interviewee from a UK business noted: »Of course the fact that so many UK companies report against non-financial indicators has a lot to do with regulatory developments in the UK. My sense is that in 4 to 5 years we will have a law in the UK that makes reporting on certain non-financial indicators mandatory. [...]

Companies are simply expected to do more to make CSR management and reporting more useful and informative. There is a push-and-pull relationship with the regulatory side. Without this pressure from the public side, I do not think we would have seen so much voluntary action.«⁷³

France is currently the only country in which all publicly listed companies are required by law to provide data on non-financial indicators covering all three pillars of sustainable development. The Nouvelles Regulations Economiques (NRE) came into force effectively for the fiscal year 2003. The law provides baseline sustainability reporting standards that French corporations can voluntarily build upon. In practice, all listed companies are required to report according to a number of social and environmental indicators starting from their 2003 annual report and accounts (for the 2002 fiscal year). There are, however, no penalties for non-compliance (see Hoffman 2003). Indeed, the first round of reporting appears to have produced few reports and what did appear was relatively weak in quality. No company in 2003 fully complied with the law (SustainAbility, Standard & Poor's and UNEP 2004).⁷⁴ Recently, however, there has been a significant growth in the number of non-financial reporters in France directly linked to the introduction of the NRE. One interviewee noted: »No matter what you think today about the value of the NRE, there can be no doubt that the law really made a huge difference in terms of pushing companies to think about sustainability issues, and to produce reports. I think it is extremely important to have legislation backing up things like the GRI. That is particularly true for southern European countries that are far behind on environmental issues in general.«⁷⁵

While it is clear that mandatory reporting rules would result in the expansion of NFR, how likely is it that governments will introduce such rules in the coming years? Again, a full-fledged survey of different legislative activities around the world is not within the scope of this report. Our interviews and a review of the relevant literature suggest, however, that the appetite for regulation appears to have significantly decreased in recent years. While legislative initiatives were launched in various countries during the late 1990's, we currently are unaware of any government seeking to make NFR mandatory in the foreseeable future.⁷⁶ With few exceptions, almost all of the interviewees contacted for this study thought it unlikely that governments will become more active in this arena. In fact, almost all of them expressed a very negative view on this particular issue. One interviewee did not believe that governments will drive the agenda forward and further elaborated: »Certainly not in the US but I also believe not in Europe. There is a strong disinclination to add further regulatory burdens on business. The area is also quite complex. And of course it is also not exactly a new thing. Politics to a large extent is driven by fads. Promoting sustainability reporting requires taking a long-term perspective, to push complex things. I don't see that happening anywhere at this point.«⁷⁷

One commentator did offer an alternative view: »Of course, government legislation is [the] quickest way to increase NFR. I also believe that [the] desire to avoid government legislation drives some of the voluntary reporting that we see today. I do not concur that government pressure seems likely to decrease in the near future. Climate change/global warming are growing concerns for governments. They need to show that they are being responsible and focusing on these issues. The pressure on promoting non-financial reporting is accordingly likely to increase rather than decrease.«⁷⁸ While global warming and other key social and environmental issues are likely to grab the attention of policymakers and the public in coming years—in turn putting pressure on companies to reform harmful practices—it remains an open question whether the expansion of regular sustainability reporting will necessarily be a consequence.

Recent developments in the European Union importantly indicate a negative trend with regard to NFR in the regulatory domain. The European Commission had been at the forefront of CSR initiatives since the late 1990's,⁷⁹ conducting an extensive multi-year, multi-stakeholder study on CSR issues.⁸⁰ While a concrete proposal for introducing mandatory NFR rules was never on the table, there were efforts in the European Commission to introduce an EU-wide policy for CSR that would feature mandatory reporting components (see European Commission 2001 and 2002). From the outset, the business community was skeptical. After the change of Commission leadership in 2005 and an overall shift toward business competitiveness, the Commission's work on CSR has been effectively derailed for the time being.⁸¹ Interviewees suggested the ambitious Commission agenda on CSR was torpedoed by business associations that lobbied Commissioner Günther Verheugen to drop the program.⁸²

The perception that governments have become less active in the CSR and NFR domain was supported by multiple interviews. One interviewee confirmed: »It is true that governments today are

much less enthusiastic about introducing additional legislation to mandate CSR reporting. The French are an aberration but even they are becoming tired of the NRE. But the pendulum will swing back into a different direction. These sustainability issues will not go away, and in a few years time we will go back.«⁸³ Our efforts to obtain updates on the legislative agendas of the United Kingdom, Germany, Norway and Switzerland reveal a similar picture. Responses overall were negative, with respondents indicating that no further legislative activity is planned. Further research also did not reveal any legislative initiatives in other countries.

Consequently, although government regulation would surely be an effective lever to broaden the practice of NFR, it seems unlikely that many governments will take action on this issue anytime soon. The pendulum may swing back the other direction in a few years, but such an occurrence is difficult to predict. The political agenda usually reacts to crises and pressure. Major political failings, organized stakeholder demands, or pressure from NGOs may put NFR back on the agenda. For now, however, pressure on governments seems likely to decrease.

3.2.6 REPORTING IN DEVELOPING AND EMERGING ECONOMIES

The discussion of the key drivers and levers of NFR in the preceding sections focuses to a large extent on the OECD world. This is an unfortunate, but to some extent unavoidable, consequence of the limits of publicly available data and research on NFR,⁸⁴ as well as the fact that the majority of interviewees come from the industrialized world.⁸⁵

Various commentators suggested it would be misleading to draw general conclusions about overall developments in NFR based solely on the analysis of trends and developments in the OECD world. Some predicted that future growth in reporting will be concentrated primarily in developing and emerging economies, referring to a »second wave of reporting.« One person noted, for example, that NFR will experience strong growth in emerging economies, especially among large companies striving to gain access to international markets: »Currently there are approximately 20 companies that do produce reports. [...] they clearly see the benefits of reporting. Benefits accrue primarily because such reporting raises the confidence level of these companies in the international marketplace. They can use these reports to become accepted and reliable global players.«⁸⁶ At least one other interviewee, as well as various members of the Stakeholder Council and the Board of the GRI Secretariat (during a presentation of the draft review in July 2006), made similar comments.

However, other interviewees voiced the exact opposite perspective on the future of NFR practices in developing and emerging economies. With regard to developing countries, various interviewees argued that although NFR may not be seen as irrelevant, »[...] it is something that is very low on the list of priorities, and probably for a very long time to come.«⁸⁷ In his response, one interviewee epitomized this sense of scepticism regarding prospects of growth of NFR in emerging countries such as Brazil, Russia, India and China: »It is not just that companies from these emerging markets do not push for reporting and that there is no growth there. In addition, from my perspective exactly the opposite is happening. Many companies are heavily opposed to such reporting. The train moves backwards, and not forward.«⁸⁸ At this stage, it is impossible to conclusively evaluate these arguments.

3.3 THREE DEVELOPMENT SCENARIOS FOR NON-FINANCIAL REPORTING

Based on our analysis of past non-financial reporting developments and an examination of the underlying drivers and levers, what can we reasonably expect to observe in the near future regarding reporting trends?

As we emphasized from the outset of our investigation, making projections about future developments is problematic since NFR trends are influenced by a plethora of variables. For example, the potential of a major political swing always exists, perhaps induced by a serious environmental accident, which could fundamentally alter the debate on NFR. Furthermore, reporting trends, especially in developing and emerging economies, are not well understood. Nonetheless, for the sake of analysis it is important to make projections of future trends based on the evidence we have been able to gather and present in the report thus far. We believe the existing evidence sufficiently enables us to develop and discuss three potential scenarios for the future development of NFR: Exponential growth, stagnation, and linear growth.

3.3.1 SCENARIO 1: EXPONENTIAL GROWTH

One simple way to predict the future growth of NFR is to extrapolate from past growth rates. Between 1992 and 2005, the number of companies producing a non-financial report grew from 26 to 1906, indicating a compound annual growth rate of roughly 39 percent. If we base our future growth projections on this performance, we should expect the absolute number of non-financial reporters to grow to almost 10,000 by 2010.

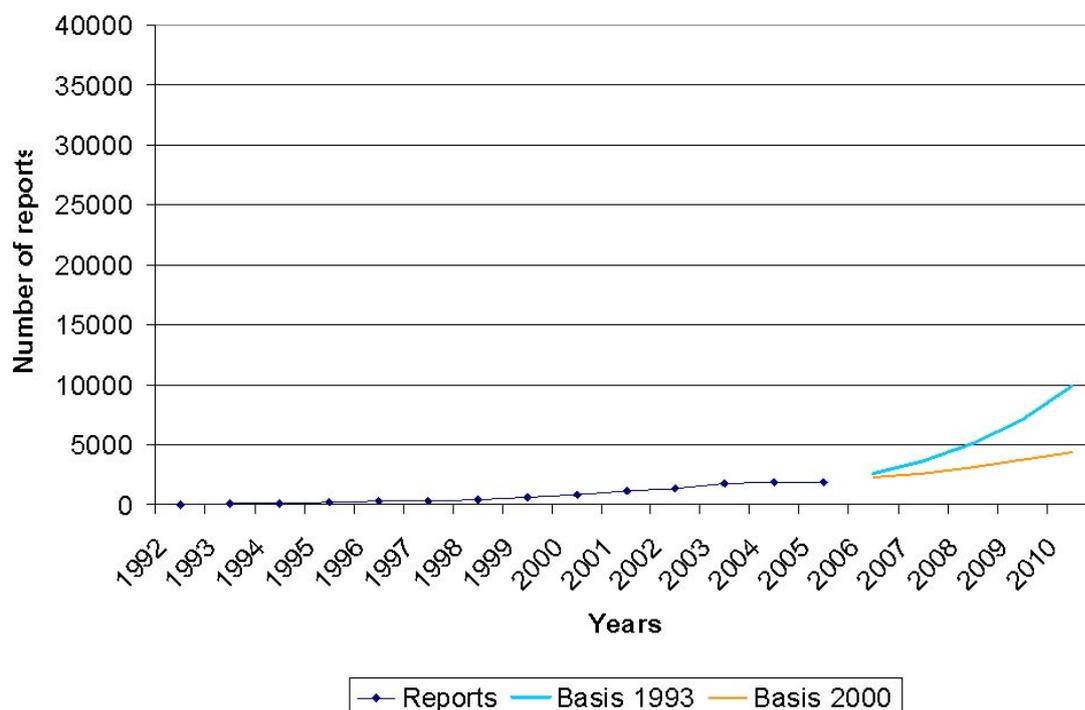
However, we have also shown that the growth rate of non-financial reporters has dropped during the past five years, reducing the compound annual growth rate to 18 percent. If we base our future growth projection on the performance of NFR trends during the past five, rather than 10 years, we should expect approximately 4,400 non-financial reporters in 2010. These two projections are depicted in Figure 3.3.1a below:

Figure 3.3.1a: Extrapolating exponential growth from past performance

Projections for 2020

Blue curve based on extrapolating growth from 1992 (39.14%)

Red curve based on extrapolating growth from 2000 (18.06%)



In light of our analysis of the underlying drivers and levers behind NFR however, we believe these growth scenarios are unrealistic. To date, there is no indication that the drivers behind NFR are strong enough to produce exponential growth rates. To build on the metaphor used earlier, there simply is not enough fuel for the NFR engine to progress at the speed with which it progressed during the past years. Growth rates have continued to decline significantly in recent years. In some countries, including the United States, the absolute number of reporters has started to drop. Growth in the number of reporters has been by and large confined to the OECD world, and there are no strong indicators to suggest that growth will accelerate in emerging economies. The same is true for the SME sector; growth in the number of reporters among SMEs has been negligible and there are currently no signs to indicate improvements in future growth rates. Finally, we see no indication that governments will move toward a mandatory approach to NFR.

3.3.2 SCENARIO 2: STAGNATION

At the opposite end of the analytical spectrum, one could deduce a pessimistic scenario for the future development of NFR. A stagnation scenario assumes that growth rates in the number of reporters will not just continue to drop in the coming years, but also reverse at some point, after which time the absolute number of reporters will start to decline.

The prediction of reversal is based on the assumption that NFR really is a »fad« without any significant benefits for anyone involved in the process: the government, companies or the public.

According to the pessimists, NGOs and other stakeholders are unsatisfied with the overall quality, content and reliability of reporting and will therefore stop pushing for such practices; companies will soon realize that stakeholders do not reward reporting and that the »business case« for NFR (realization of cost efficiencies or increased staff motivation) is weak or non-existent, or that benefits can be achieved without the relatively expensive practice of reporting; and finally, governments will refrain from introducing (or threatening to introduce) legislation, either due to special interest lobbying or the realization that goals can be better achieved through other means.

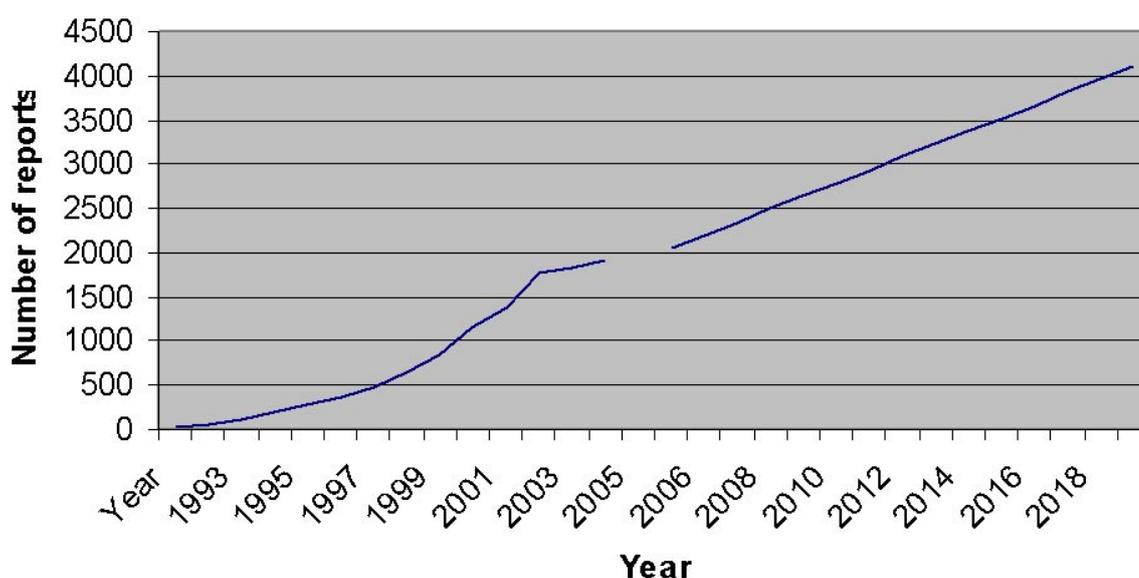
While this scenario is not without empirical precedent, as was the case of social reporting in western Europe, and specifically in Germany, in the 1970's (see e.g. Antal, Dierkes, MacMillan and Marz 2000), we believe the pessimists do not describe the most likely scenario for the coming years. It is true that the overall growth rate in the number of reporters is declining and some countries have seen stagnant growth in more recent years, but other countries and industry sectors have experienced fairly strong growth. Although some companies have stopped producing non-financial reports, there are no signs of a systematic trend toward a decline in reporting.

This does not imply that the stagnation scenario should be ruled out entirely. Should the underlying drivers of NFR weaken even further and assumptions about the »business case« for reporting prove wrong, there is a chance that current NFR trends will suffer the same fate as the social reporting market of the 1970's.

3.3.3 SCENARIO 3: LINEAR GROWTH

Our analysis of the past development of NFR practices, as well as the examination of underlying drivers and levers, allows us to confidently conclude that the most likely trend in NFR in the coming years will be characterized by linear growth. Based on a linear model, there will be approximately 4,100 companies producing non-financial reports in 2020, as depicted in Figure 3.3.3a below.

Figure 3.3.3a: Linear growth



Based on current trends, further growth in the number of reporters is likely to be concentrated primarily among large TNCs (Fortune 500). It is also probable that the NFR trend will encompass some TNCs based in emerging economies, such as China, Russia, Brazil and India.

According to the predictions of the linear growth model, the number of reporters will double within 15 years. Despite this limited growth, NFR will remain marginal for many years to come. Using the total number of TNCs worldwide as a benchmark (an estimated 37,000), in 2020 approximately 11 percent of all TNCs will produce non-financial reports. Today, the share of reporters among TNCs is approximately 5 percent. Yet these numbers do not consider SMEs—a huge number of companies that, from a sustainable development perspective, should also be included in NFR activities.

The linear growth scenario is not the most pessimistic scenario. But it also does not provide much comfort for advocates of NFR. If more significant growth in reporting is to be achieved, some of the fundamental dynamics of the process—determined by the drivers and levers described above—

need to change. Judging by the current circumstances, however, that appears improbable. More significantly, it should not be taken for granted that linear growth will continue indefinitely; evolution into a period of stagnation seems possible as well, depending on how the drivers behind NFR develop. With governments not particularly interested in promoting mandatory approaches to NFR, the underlying drivers must carry the burden of maintaining the momentum for further growth.

- ⁴⁰ Various interviewees and commentators to draft versions of the review pointed to the unpredictability of political currents that can produce massive change in this arena in comparatively short periods of time. One good example in that context is the corporate governance arena. The collapse of Enron and WorldCom has fundamentally altered the societal and political context within which corporate governance is discussed. As a result of that crisis, the regulatory environment in the United States has been significantly revamped, and regulatory controls have been strengthened through the Sarbanes-Oxley Act.
- ⁴¹ For more details on the survey and survey methodology see appendices 2 and 3 to this report.
- ⁴² Interview conducted by the authors on 13 April 2006. Interview No.36.
- ⁴³ Some of the categories listed above overlap—concerns over corporate brand and reputation are quite closely related to NGO pressure. Just consider the case of Nike. In the 1990's, Nike faced a coordinated campaign by NGOs against its tolerance of labor practices in South East Asian production facilities that had a direct impact on the company's brand value and reputation (see e.g. Zadek 2004, Esbenshade 2004, pp. 119-120).
- ⁴⁴ In follow-up interviews, some respondents also viewed the production of non-financial reports in order to manage brand and reputation as exercises in »green-washing.« Whether or not that is fair is open to debate.
- ⁴⁵ Interview conducted by the authors in Amsterdam on 20 January 2006. Interview No.34.
- ⁴⁶ Phone interview conducted by the authors on 6 January 2006. Interview No.17.
- ⁴⁷ Phone conversation with the authors on 20 February 2006.
- ⁴⁸ Phone interview conducted by the authors on 10 April 2006. Interview No.31.
- ⁴⁹ Comment added to Survey No. 84, received on 10 April 2006 (on file with the authors).
- ⁵⁰ Interview conducted by the authors on 12 September 2006. Interview No. X3.
- ⁵¹ Written commentary No. 1 to draft review of the GRI (submitted 20 August 2006). On file with the authors.
- ⁵² Written commentary No. 1 to draft review of the GRI (submitted 20 August 2006). On file with the authors.
- ⁵³ Phone interview conducted by the authors on 10 April 2006. Interview No. 31.
- ⁵⁴ It is important to note that this does not mean that NGOs will become less forceful in pressuring business to improve their social and environmental record. It only means that they are likely to choose other tools and instruments to do so (e.g. lobbying governments for regulation, promoting sustainability management systems, etc.).
- ⁵⁵ Written commentary No. 1 to draft review of the GRI (submitted 20 August 2006), on file with the authors.
- ⁵⁶ One commentator also noted that, in general terms, visible social and environmental corporate leadership can serve as an important attraction for new staff. »Goldman Sachs reports that their recruitment level improved markedly after they put into preservation land that they had acquired through foreclosure (Tierra del Fuego). Those joining the bank indicated that this act was the single reason that they had decided to work for Goldman. On retaining staff, we find that feeling aligned and good about the values of your firm are important factors in staff retention. The issue or motivator is not that NFRs are produced, but the content of those reports. By continuing to report, you keep doing.« Written commentary No. 1 to draft review of the GRI (submitted 20 August 2006). On file with authors.
- ⁵⁷ This conclusion is also supported by evidence from a survey of company employees on the value of NFR (see Pleon 2005, p.15).
- ⁵⁸ Phone interview conducted by authors on 20 February 2006. Interview No. 14.
- ⁵⁹ Interview conducted by the authors on 28 March 2006. Interview No. 2.

- ⁶⁰ Many interviewees tended to lump the two together, or were unspecific about which sub-segments of financial markets are actually key drivers behind NFR.
- ⁶¹ Note, however, that a growing number of banks and investment houses do not conduct their own surveys but rely on information provided by professional data collectors (such as for example Scoris).
- ⁶² Phone interview conducted by the authors on 13 April 2006. Interview No. 36.
- ⁶³ Various large investment houses have participated in a conference on non-financial risk issues organized by the United Nations Global Compact in August 2005 in Zurich. For a conference report visit http://www.unglobalcompact.org/Issues/financial_markets/zurich_rep.pdf (accessed 8 May 2006). Some of the big investment firms have also started to engage with the GRI on issues related to NFR. For example, Goldman Sachs delegated an analyst to the Indicators Working Group for the G3 development process.
- ⁶⁴ Conversation with company official with the authors on 28 February 2006.
- ⁶⁵ A regulatory approach to NFR would not automatically deal with the comprehensiveness and quality of reports. In addition, as the experience in financial accounting teaches us, even in a regulatory environment characterized by fines and other sanctioning mechanisms, companies still engage in accounting fraud.
- ⁶⁶ For an overview of reporting rules across 16 countries see KPMG (2005), pp. 40-42.
- ⁷⁶ Various commentators to an earlier draft of this report have argued that our review omits several key regulatory developments that, in their view, directly impacts company reporting practices and the GRI. One example that was noted was the Management Discussion and Analysis (MD&A) in the US. The MD&A is a section of a company's annual report (usually contained in the preface of the financial report) in which management discusses numerous aspects of the company. Among other things, the MD&A provides an overview of the previous year of operations and how the company fared in that time period. Management will usually also touch on the upcoming year, outlining future goals and approaches to new projects. That section may (or may not) also include information on social and environmental issues. We have not conducted a representative search through financial reports to determine the extent to which MD&As include such information. It should also be noted that the MD&A remains un-audited. We have decided not to include the MD&A in this report because we felt the immediate relevance (or the immediate link) to NFR as promoted by the GRI was not obvious. One could advance the argument that, in the aggregate, various rules and regulations (of which the MD&A is only but one part) will eventually push non-financial reporting into the mainstream. In that sense, the MD&A would be a piece in a broader puzzle. What is unclear to us, however, is how the actual dynamics would work, what the direct relevance for the GRI is, and how the complete puzzle will eventually look.
- ⁶⁷ This study does not constitute a representative or even comprehensive review of regulatory developments in the broader arena of social and environmental rules globally.
- ⁶⁸ In addition, it is important to point out that regulatory requirements in the US do not just differ across industry sectors but also across states.
- ⁶⁹ For an overview of mandatory reporting requirements in the US, specifically in the environmental arena, see Case (2005), pp.392 ff.
- ⁷⁰ Comment submitted on 21 July 2006. Comment No.3. On file with authors.
- ⁷¹ See http://ec.europa.eu/internal_market/securities/transparency/index_en.htm for more information about that Directive (accessed 19 September 2006).
- ⁷² See Eurosif Newsletter April 2004, www.eurosif.org (accessed 19 September 2006).
- ⁷³ Phone interview conducted by the authors on 27 March 2006. Interview No. 25.
- ⁷⁴ However, there are already various calls to improve upon this legislation and make it more far-reaching. See e.g. www.ethique-sur-etiquette.org/progres.htm (accessed 7 May 2006).
- ⁷⁵ Interview conducted by the authors on 22 November 2005. Interview No. 12. See also the benchmark surveys of French company reports in 2003 and 2005 published by Utopies, Sustainability and UNEP: Utopies, Sustainability and PNUE (2003) and Utopies, Sustainability and PNUE (2005).

- ⁷⁶ The German Council for Sustainable Development, appointed by the previous Chancellor Gerhard Schröder, will issue recommendations at the end of September that do advocate a mandatory approach to NFR. It is unclear, however, what impact that suggestions will have and what the political follow-up will look like.
- ⁷⁷ Interview conducted by the authors on 14 May 2006. Interview No. 5.
- ⁷⁸ Written commentary No. 1 to draft review of the GRI (submitted 20 August 2006). On file with authors.
- ⁷⁹ For an overview of the Commission's activities in this area please visit http://europa.eu.int/comm/employment_social/soc-dial/csr/index.htm (accessed 7 May 2006).
- ⁸⁰ See for example the establishment of the EU Multi-Stakeholder Forum on CSR, http://forum.europa.eu.int/irc/empl/csr_eu_multi_stakeholder_forum/info/data/en/csr%20ems%20forum.htm (accessed 7 May 2006).
- ⁸¹ See e.g. Hugh Williamson, »Brussels to side with business on CSR,« in The Financial Times, 12 March 2006 and Janis Oldenziel,« European Commission abandons multi-stakeholder approach in CSR,» 4 April 2006 at http://www.ethicalcorp.com/content_list.asp?m=toi&toi=65 (accessed 7 May 2006).
- ⁸² Interviews conducted by the authors on 28 March 2006. Interview No. 2 and No.24.
- ⁸³ Interview conducted by the authors on 28 March 2006. Interview No. 2.
- ⁸⁴ As noted above, to our knowledge, currently no systematic surveys of reporting practices in developing and emerging economies is being conducted.
- ⁸⁵ As noted in the introduction, in selecting interview candidates, the review started out with a somewhat balanced slate of candidates proposed by UNEP and GRI. Due to resource and time constraints, however, many potential interviewees from developing or emerging economies could not be interviewed. Note, however, that the pool of survey respondents (93 respondents altogether) is more balanced, both in terms of sectors as well as regions.
- ⁸⁶ Phone interview conducted by the authors on 22 August 2006. Interview No. X1.
- ⁸⁷ Interview conducted by the authors on 28 March 2006. Interview No. 2. A similar view was expressed by at least two other interviewees.
- ⁸⁸ Phone interview conducted by the authors on 29 August 2006. Interview No. X2.

4 CONCLUSION

In this paper, we have provided an assessment of overall trends and growth patterns in non-financial and sustainability reporting across various sectors, industries and in specific national contexts. From these findings, we constructed an analytical framework with which to approach NFR practices based on the drivers and levers of growth. Using this new framework, we propose predictions of future growth trends. All of our conclusions have been supported with empirical and analytical evidence based on survey data, interviews and an extensive literature review. The key findings are summarized below:

First, although overall interest in NFR has grown substantially during the past decade, the growth curve has reached a plateau and begun to level. The number of reports published grew by only 18 percent between 2000 and 2005, compared to a compound annual growth rate of 39 percent during the period 1992 to 2005. Furthermore, in some countries the total number of reports published dropped between 2002 and 2005. To date, NFR remains a niche practice, utilized primarily by large TNCs based in the OECD world. However, in terms of absolute numbers, NFR is uncommon even among TNCs; fewer than 5 percent of TNCs produce non-financial reports. Among OECD countries, reporting remains especially low in the United States. The lack of participation from small and medium sized enterprises, as well as from companies based in the developing world—especially India and China—should be a cause for concern.

Second, our examination of the underlying drivers and levers behind NFR casts doubt on the hope that reporting will become a mainstream practice anytime soon. If reporting continues to be an entirely voluntary practice, it will remain concentrated in a few select regions and industry sectors. Mainstream investment analysts—contrary to popular belief among NFR advocates—do not care about non-financial issues. External assurance is rare and not uniformly applied, thereby casting doubt on the reliability of non-financial reports. Furthermore, most external assessments generally underscore the low quality of reporting. More importantly, the perceived lack of benefits for companies remains a major obstacle for NFR growth. The only lever with the potential to propel reporting into the mainstream is mandatory regulation. Our brief review of regulatory developments concludes, however, that interest among governments in a mandatory approach to reporting reached its peak and is currently on the decline. The attempt and failure of European governments to introduce mandatory legislation at the EU level in 2005 is indicative of this negative trend.

Third, based on past NFR trends, as well as the analysis of underlying drivers and levers of growth, we conclude that the future of NFR will be characterized by linear rather than stagnate or exponential growth. According to the scenario of linear growth, approximately 4,100 companies will produce non-financial reports in 2020, representing 11 percent of TNCs globally. In this way, neither the positions of NFR advocates nor those of the skeptics are entirely unfounded. Advocates are correct in asserting that the practice of NFR will retain some importance in the coming years—even if reporting becomes a symbolic gesture on the part of companies to signal their interest in sustainability issues. In fact, we expect reporting to double within 15 years. Yet skeptics are equally correct to assert that there is little impetus for reporting practices to expand, partly because the inherent value of these reports remains to be proven, be it for governments, companies, or a concerned public (including NGOs). Because NFR is a relatively new phenomenon and strongly linked to politics and environmental conditions, we leave open the possibility that a sudden political shift to the left, or a detrimental environmental disaster could swing the balance in favor of NFR advocates. For the time being, however, we believe the scenario of linear growth offers the best indication of future reporting behavior.

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ACRONYMS

| | |
|------------|--|
| ACCA | Association of Chartered Certified Accountants |
| CEO | Chief Executive Officer |
| CERES | Coalition for Environmentally Responsible Economies |
| CIME | International Investment and Multinational Enterprises |
| COO | Chief Operating Officer |
| DTI | Department for Trade and Industry |
| DTIE | Division of Technology, Industry and Economics |
| EU | European Union |
| EUR | Euro |
| FDI | Foreign direct investment |
| GNI | Gross National Income |
| GPPI | Global Public Policy Institute |
| GRI | Global Reporting Initiative |
| ICC | International Chamber of Commerce |
| ISO | International Organization for Standardization |
| NFR | Non-financial reporting |
| NRE | Nouvelles Regulations Economiques |
| OECD | Organization for Economic Co-operation and Development |
| OFR | Operating and Financial Review |
| OS | Organizational Stakeholder |
| SC | Stakeholder Council |
| SFP | Structured Feedback Process |
| SMEs | Small- and medium-sized enterprises |
| SRI | Socially Responsible Investment |
| TAC | Technical Advisory Committee |
| TNCs | Transnational corporations |
| TUAC | Trade Union Advisory Committee |
| UNCTAD | United Nations Conference on Trade and Development |
| UNF | United Nations Foundation |
| VFU | Verein für Umweltmanagement |
| WSSD | World Summit on Sustainable Development |
| WZB Berlin | Social Science Research Center Berlin |

ACKNOWLEDGMENTS

We would like to thank the many individuals and institutions that have helped us in preparing this review.

These include the entire staff of the GRI Secretariat in Amsterdam (Netherlands), and in particular Teresa Fogelberg, Henriette Hettinga, Monique Hutten, Naoko Kubo, Ernst Ligteringen, Alyson Slater, and Ralph Thurm.

We would also like to thank Monique Barbut (UNEP), Dominique Bé (European Commission), Stefano Bertasi (ICC), Mark Cohen (Vanderbilt University), Dr. Meinolf Dierkes (WZB Berlin), Dr. Klaus Dingwerth (University of Bremen), John Evans (TUAC), Sarah Forrest (Goldman Sachs), Dr. Georg Fuger (Credit Suisse), Linda Funnel-Milner (GRI Stakeholder Council Chair), Gianreto Gamboni (UBS), Julia Haake (La Poste), Astrid Harnisch (German Ministry of Environment), Judy Henderson (Chairman of GRI Board), Paul Hohnen (Hohnen Sustainability Strategies), Georg Kell (United Nations Global Compact), Axel Klein (Pleon), Ans Kolk (University of Amsterdam), Rob Lake (Henderson Global Investors), Sir Mark Moody Stuart (Anglo American and Member of GRI Board), Roel Nieuwenkamp (Ministry of Economic Affairs), Pedro Ortun (European Commission), Lothar Rieth (University of Darmstadt), Anthony Sampson (Aviva), Sandra Schwindenhammer (University of Darmstadt), Paul Scott (Next Step Consulting), Guy Seban (ICC), Timo van de Brink (CIMO Freije Universitat Amsterdam), Marc van de Rijn (Heineken International), Pieter van der Gaag (IUCN), Cornis van der Lugt (UNEP), Nicolaus von der Goltz (German Ministry for Economic Cooperation and Development), Marek Wallenfells (West LB), Marc Weintraub (Shell), Allen White (Tellus Institute), Axel Wilhelm (Scoris), Peter Wong (Deloitte Touche Tohmatsu), Astrid Zwick (Allianz AG).

For editing and proof-reading we would like to thank David Beffert, Cecily Brewer and Wade Hoxtell (all GPPi).

APPENDIX 1. LIST OF INTERVIEWEES

| Public sector | | | | |
|-------------------------|--|-------------------|---------------------------------------|-----------------|
| Barbut, Monique | UNEP | 22 November 2005 | Jan Martin Witte | Interview |
| Bé, Dominique | European Commission | 28 March 2006 | Jan Martin Witte | Interview |
| Harnisch, Astrid | German Ministry of Environment | 27 April 2006 | Jan Martin Witte | Interview |
| Kell, Georg | United Nations Global Compact | 12 September 2006 | Jan Martin Witte; Markus Palenberg | Interview |
| Nieuwenkamp, Roel | Ministry of Economic Affairs | 20 January 2006 | Julia Hartmann | Phone Interview |
| Ortun, Pedro | European Commission | 28 March 2006 | Jan Martin Witte | Interview |
| von der Goltz, Nicolaus | German Ministry for Economic Cooperation and Development | 17 March 2006 | Jan Martin Witte | Interview |
| Business | | | | |
| Bos, Johan | ABN/AMRO | 14 September 2006 | Markus Palenberg | Phone Interview |
| Calingasan, David | Bear Stearns | 15 September 2006 | Markus Palenberg | Phone Interview |
| Forrest, Sarah | Goldman Sachs | 30 March 2006 | Markus Palenberg | Phone Interview |
| Fuger, Dr. Georg | Credit Suisse | 12 April 2006 | Markus Palenberg | Phone Interview |
| Funnel-Milner, Linda | GRI Stakeholder Council Chair | 28 March 2006 | Jan Martin Witte | Phone Interview |
| Gamboni, Gianreto | UBS | 12 April 2006 | Markus Palenberg | Phone Interview |
| Haake, Julia | La Poste | 22 November 2005 | Jan Martin Witte | Interview |
| Henderson, Judy | Chairman of GRI Board | 20 February 2006 | Jan Martin Witte | Phone Interview |
| Klein, Axel | Pleon | 16 January 2006 | Julia Hartmann | Phone Interview |
| Lake, Rob | Henderson Global Investors | 23 January 2006 | Julia Hartmann | Phone Interview |
| Lindberg, Ylva | SIGLA Consulting | 31 August 2006 | Markus Palenberg | Phone Interview |
| Moody Stuart, Mark | Anglo American Member of GRI Board | 30 March 2006 | Jan Martin Witte Wolfgang Reinicke | Interview |
| Mott, Dane | Bear Stearns | 15 September 2006 | Markus Palenberg | Phone Interview |
| Nyati, K.P. | Confederation of Indian Industry | 22 August 2006 | Jan Martin Witte | Phone Interview |
| Pegg, Janet L. | Bear Stearns | 15 September 2006 | Markus Palenberg | Phone Interview |

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|---------------------------------------|---|-------------------|--|-----------------|
| Sampson, Anthony | Aviva | 27 March 2006 | Jan Martin Witte | Phone Interview |
| Scott, Paul | CorporateRegister | Various occasions | Jan Martin Witte; Wolfgang Reinicke | Interview |
| Seban, Guy | ICC | 22 November 2005 | Jan Martin Witte | Interview |
| Senyek, Chris | Bear Stearns | 15 September 2006 | Markus Palenberg | Phone Interview |
| van de Rijn, Marc | Heineken International | 19th January 2006 | Jan Martin Witte Julia Hartmann | Interview |
| Wallenfells, Marek | West LB | 3 February 2006 | Jan Martin Witte | Phone Interview |
| Weintraub, Marc | Shell | 19 January 2006 | Jan Martin Witte Julia Hartmann | Interview |
| Wilhelm, Axel | Scoris | 13 April 2006 | Markus Palenberg | Phone Interview |
| Wong, Peter | Deloitte Touche Tohm- atsu, Member of the GRI Board | 9 January 2006 | Julia Hartmann | Phone Interview |
| Zwick, Astrid | Allianz AG | 24 January 2006 | Jan Martin Witte | Phone Interview |
| Academic | | | | |
| Cohen, Mark | Vanderbilt Univer- sity, Member of the GRI Stakeholder Council | 19 April 2006 | Jan Martin Witte | Phone Interview |
| Dierkes , Dr. Meinolf | WZB Berlin | 26 January 2006 | Julia Hartmann | Phone Interview |
| Dingwerth, Klaus | University of Bremen | 14 May 2006 | Jan Martin Witte | Interview |
| Elkington, John | SustainAbility | 29 August 2006 | Jan Martin Witte | Phone Interview |
| Kolk, Ans | University of Amster- dam | 6 January 2006 | Julia Hartmann | Phone Interview |
| Rieth, Lothar | University of Giessen | 15 May 2006 | Jan Martin Witte | Interview |
| van de Brink, Timo | CIMO Freje Universitat Amsterdam | 19 January 2006 | Jan Martin Witte Julia Hartmann | Interview |
| Civil society and Trade Unions | | | | |
| Evans, John | TUAC, Member of the GRI Board | 20 April 2006 | Jan Martin Witte | Phone Interview |
| Kapelus, Paul | African Institute for Corporate Citizenship, Member of the GRI Stakeholder Council | 30 March 2006 | Julia Hartmann | Phone Interview |
| Nussbaum, David | Transparency Interna- tional | 5 September 2006 | Jan Martin Witte | Interview |
| van der Gaag, Pieter | IUCN, Member of the GRI Stakeholder Council | 10 April 2006 | Jan Martin Witte | Phone Interview |
| White, Allen | Tellus Institute | 13 April 2006 | Jan Martin Witte | Phone interview |
| GRI | | | | |
| Fogelberg, Teresa | GRI | 20 January 2006 | Jan Martin Witte Julia Hartmann | Interview |

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|--------------------|-----|-------------------|--------------------------------------|-----------|
| Kubo, Naoko | GRI | 20 January 2006 | Jan Martin Witte Julia Hartmann | Interview |
| Ligteringen, Ernst | GRI | Various occasions | Jan Martin Witte | Interview |
| Slater, Alyson | GRI | 20 January 2006 | Jan Martin Witte Julia Hartmann | Interview |
| Thurm, Ralph | GRI | Various occasions | Jan Martin Witte Markus Palenberg | Interview |

APPENDIX 2. SURVEY AND SURVEY METHODOLOGY

GPPI conducted a survey among experts and practitioners in the non-financial (sustainability) reporting arena to systematically gather information about key trends in non-financial reporting and the role of the GRI.

GPPI sent out the survey on the Global Reporting Initiative by email between 20 and 27 March 2006 to 290 individuals. Responses, by email and mail, were collected by the Global Public Policy Institute over the following 4 weeks. For those who did not respond follow-up emails were sent and telephone calls were made between 28 March and 7 April 2006.

The sample was self-selected through searching the internet for relevant people with an interest and track record in the field of sustainable development, CSR and non-financial reporting, across different sectors, regions, and gender and revenue streams. The selection was fairly successful as more than 80 % of the respondents are familiar with non-financial reporting and the GRI.

The survey contains a total of 37 questions in English. Part A consists of 4 background questions on the respondent's company. Part B consists of 10 questions on the evolving market for non-financial reporting. Part C covers 17 questions relating to the role of the Global Reporting Initiative in the market for non-financial reporting. 6 questions deal with the **perspectives on the GRI governance structure** in part D.

The survey was in Word document format. Respondents were able to fill out the survey electronically or manually. GPPI collected the surveys and coded them. The survey was confidential, with only GPPI handling the raw data. Results are only shown in aggregated format.

Of the 290 contacts approached, GPPI received 94 responses. The response rate was therefore approximately 32 percent. This is slightly higher than what is usually found in the social sciences.⁸⁹ Yet, the survey results are not representative. Responses were treated confidentially and were received in most cases via email, in some exceptions as printed letters.

⁸⁹ For studies on response rates, see e.g. Sheehan (2001), Manfreda and Vehovar (2003) or Tarnai and Paxson (2004).

APPENDIX 3. SURVEY RESPONDENTS

| | | | |
|----|----------------------------|--------------------------------|----------------------------|
| 1 | Utopies | For-Profit company | Stanislas Dupré |
| 2 | Petrobras | Business association | Enrique Prini Estebecorena |
| 3 | S&P | For-Profit company | George Dallas |
| 4 | Karstadtquelle | For-Profit company | Dr. Alexandra Hildebrandt |
| 5 | GES-Invest | For-Profit company | Magnus Furugard |
| 6 | ENSMF | University | Aurélien Acquier |
| 7 | TNT | Business association | Peter von Minderhout |
| 8 | Econtext | For-Profit company | Roger Cowe |
| 9 | Kumba Resources | For-Profit company | Ramesh Chagan |
| 10 | Vigeo | For-Profit company | Erik Christiansen |
| 11 | CEP | Not-for-profit, NGO | Brian Kohler |
| 12 | Adecco | For-Profit company | Johannes Bartels |
| 13 | Prosus | University | Audun Ruud |
| 14 | Wartsila | For-Profit company | Marko Vainikka |
| 15 | CSR Network | For-Profit company | Mark Line |
| 16 | Paulig | For-Profit company | Timo Allen |
| 17 | Corporate Response Ability | For-Profit company | Linda Funnell-Milner |
| 18 | Accountability | Not-for-profit, NGO | Itziar Castello Molina |
| 19 | Wenmans | For-Profit company | Paul Wenman |
| 20 | Charter | Not-for-profit, NGO | Ronald Lund |
| 21 | Panama Canal | Intergovernmental organization | Julieta Rovi |
| 22 | Enell | For-Profit company | Magnus Enell |
| 23 | Javierre | For-Profit company | Antonio Javierre Montaner |
| 24 | Norskeskog | For-Profit company | Paal Stensaas |
| 25 | Barloworld | For-Profit company | Rowan Goeller |
| 26 | AngloAmerican | For-Profit company | Ian Emsley |
| 27 | Unilever | For-Profit company | Henry King |
| 28 | Hydro | For-Profit company | Kirsten Margrethe Hovi |
| 29 | Dialogue | For-Profit company | Andi Freemantle |
| 30 | Empresa | Business association | Pablo Frederick |
| 31 | Milieudéfense | Not-for-profit, NGO | Paul de Clerck |
| 32 | Univ. of Witwatersrand | University | Prvoslav Marjanovic |

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|----|-----------------------|----------------------|-------------------------------|
| 33 | Comcast | Not-for-profit, NGO | Paul Freundlich |
| 34 | Deloitte | Business association | Claire Van Bergen |
| 35 | Storebrand | For-Profit company | Kathinka Noding |
| 36 | Storaenso | For-Profit company | Eija Pitkänen |
| 37 | GM | For-Profit company | Erin Kreis |
| 38 | Roche | Business association | Dianne Young |
| 39 | TUAC | Not-for-profit, NGO | Pierre Habbard |
| 40 | CitiGroup | For-Profit company | Donna Oosthuysse |
| 41 | Eurosif | Not-for-profit, NGO | Jerome Tagger |
| 42 | Calvert group | For-Profit company | Julie Gorte |
| 43 | ICMM | Business association | Paul Mitchell |
| 44 | German Watch | Not-for-profit, NGO | Klaus Milke |
| 45 | Triple Innova | For-Profit company | Stephan Schaller |
| 46 | SGS | For-Profit company | Laget |
| 47 | The Copenhagen Centre | Public agency | Ole Kirkelund |
| 48 | Kesko | For-Profit company | Jouko Kuisma |
| 49 | Trilliuminvest | For-Profit company | Steve Lippman |
| 50 | Worldwatch | Not-for-profit, NGO | Hilary French |
| 51 | Eon UK | For-Profit company | Tom Dalziel |
| 52 | Roche | For-Profit company | Oliver Eckelmann |
| 53 | Carillion | For-Profit company | Quentin Leiper |
| 54 | ICC | Business association | Bertasi Stefano |
| 55 | Adidas | For-Profit company | Nicole Sieverding |
| 56 | Wanadoo | For-Profit company | Priscilla Crubézy |
| 57 | SustainAbility | For-Profit company | Judy Kuszewski |
| 58 | DSM | For-Profit company | Nelleke Barning |
| 59 | Cable.net | Not-for-profit, NGO | Santiago Madrinan-de-la-Torre |
| 60 | Ohse Institute | Not-for-profit, NGO | Ng Wie Khiang |
| 61 | Senaatti Properties | Public agency | Heimo Valtonen |
| 62 | Sony Japan | For-Profit company | N.N- |
| 63 | Lafarge | For-Profit company | Olivier Luneau |
| 64 | Good Business | For-Profit company | Francesca Fairbairn |
| 65 | Nedbank | For-Profit company | Justin Smith |
| 66 | Electrolux | Business association | Henrik Sandström |
| 67 | Peru2021.org | Not-for-profit, NGO | Ruben Campos Olazaval |
| 68 | Vanderbilt University | University | Mark A. Cohen |
| 69 | SRI World | For-Profit company | Doug Wheat |
| 70 | MWH Global | For-Profit company | Zoe Burkitt |

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|----|------------------------------|---------------------|---------------------------|
| 71 | DS Research | For-Profit company | Marcel Jeucken |
| 72 | Uniland | For-Profit company | Francisco Ceneto |
| 73 | IUCN | Not-for-profit, NGO | Pieter van der Gaag |
| 74 | Axel Springer | For-Profit company | Florian Nehm |
| 75 | Linde AG | For-Profit company | Marc Weijener |
| 76 | MSSRF | Not-for-profit, NGO | V. Arunachalam |
| 77 | FTSE | For-Profit company | Jayn Harding |
| 78 | West LB | For-Profit company | Marek Wallenfels |
| 79 | Metro | For-Profit company | Marion Sollbach |
| 80 | Hartmann | For-Profit company | Tomas Schou Winther |
| 81 | DNV | For-Profit company | Anne-Maree O'Connor |
| 82 | Sulzer | For-Profit company | Dr. Ruth E. Blumer Lahner |
| 83 | Tatasteel | For-Profit company | R. P. Sharma |
| 84 | Share Holders Association | Not-for-profit, NGO | Peter Chapman |
| 85 | WEF | Not-for-profit, NGO | Valerie Weinzierl |
| 86 | Forum for the Future | Not-for-profit, NGO | David Bent |
| 87 | Vattenfall | For-Profit company | Asa Pettersson |
| 88 | Centre for Corp. Citizenship | University | Michael Blowfeld |
| 89 | Holcim | For-Profit company | Anne Gambling |
| 90 | Sasol | For-Profit company | Stiaan Wandrag |
| 91 | Triodos | For-Profit company | G. J. Schuite |
| 92 | UOL | Not-for-profit, NGO | Ruth Coelho Monteiro |
| 93 | Esade | University | Marc Vilanova |

ABOUT THE GLOBAL PUBLIC POLICY INSTITUTE

GPPi has a long track record in research and consulting on global governance and in particular multi-stakeholder processes. GPPi has followed the GRI's evolution from its inception and has known the GRI leadership—past and present—for a number of years. However, GPPi has never been hired as a consultant by the GRI, nor has the institute conducted any other commercial work in the non-financial reporting realm. We would like to thank UNEP—and in particular the Director of DTIE in Paris, Monique Barbut—for entrusting us with this important project. We sincerely hope that the results of our review will help to shape the future of the GRI in a constructive fashion.

GPPi is a non-profit think tank located in Berlin and Geneva, which focuses on global governance. We are an independent and non-profit institute. We receive project funding from foundations as well as our project partners from the public and private sectors. We bring new voices to the fore: GPPi provides these voices with a new and dynamic platform. We work in a global network. GPPi cooperates with a broad range of international partner institutions allowing us to assemble tailor-made projects teams combining flexibility and expertise.

GPPi ENGAGES IN THREE LINES OF WORK:

- Research. GPPi explores new approaches to effective and accountable governance. Our topics include public-private partnerships, global public policy networks, and corporate social responsibility.
- Consulting. GPPi advises governments, international organizations, foundations, NGOs, and companies. We assist them in developing effective strategies for operating in the new governance environment.
- Debate. GPPi engages the broader public in a debate on new governance approaches through workshops, conferences, and publications.

For more information about our work, please visit our website at www.gppi.net.