CHAPTER 6

THEORETICAL OVERVIEW ON SOCIAL MEASUREMENT, AUDITING AND REPORT

6.1 INTRODUCTION

In Chapter 5 an overview of the importance of stakeholder engagement as a fundamental cornerstone of corporate citizenship was presented. Furthermore it also alluded to the role of partnership building in ensuring sustainable social and environmental impact in the long term. What remains a challenge however in the field of corporate citizenship is determining the success of these relationships and consequently the need to measure and report on the social impact of organisations. According to AccountAbility: Institute of Social and Ethical Accounting (UK), stakeholder engagement constitutes the pivot of the social accounting process (see Figure 6.1).

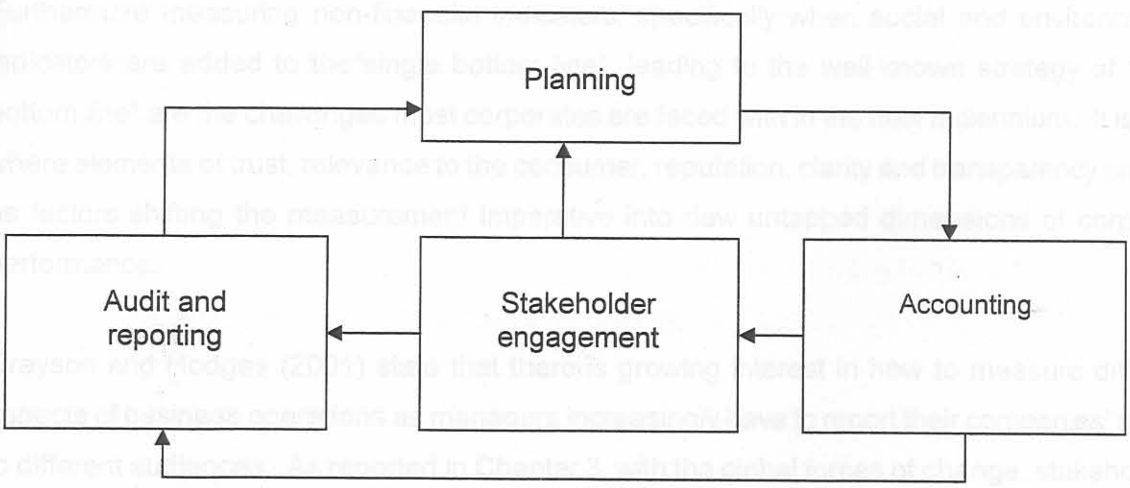


Figure 6.1: Accounting process (Source: AccountAbility 2001)

It is for this reason that Chapter 6 will focus on the theories as well as methodologies underlying social measurement. Chapter 6 will also offer examples of the frameworks used to report on social performance.

According to Logan (2001), "Citizenship needs to move from the realm of social philanthropy to the realm of management science and the measurement agenda is central to this transition." Zadek (2001) argues that the single largest area of endeavour in the field of corporate citizenship in the last decade has been in the development of new measures of progress. He strongly argues that non-financial aims and outcomes will only count when they are effectively measured. Public opinion surveys repeatedly conclude that an overwhelming proportion of the consuming public is willing to reward or penalise companies through their purchasing decisions on the basis of their social and environmental performance. Zadek (2001) reveals a list of the most valued non-financial measures by investors (in no specific order of importance):

- Execution of corporate strategies
- Management credibility
- Quality of corporate strategy
- Innovativeness
- Ability to attract and retain talented people
- Marketshare
- Management experience
- Research leadership
- Quality of major business processes

Zadek argues that it is the above indicators that drive organisational behaviour and not "Economic Value Add" (EVA) as was coined in the 90s as the key to corporate success. Furthermore measuring non-financial indicators, specifically when social and environmental indicators are added to the"single bottom line", leading to the well-known strategy of "triple bottom line" are the challenges most corporates are faced with in the new millennium. It is here where elements of trust, relevance to the consumer, reputation, clarity and transparency emerge as factors shifting the measurement imperative into new untapped dimensions of corporate performance.

Grayson and Hodges (2001) state that there is growing interest in how to measure different aspects of business operations as managers increasingly have to report their companies' results to different audiences. As reported in Chapter 3, with the global forces of change, stakeholders are no longer prepared to trust what companies say; there has to be proof. This leads to the question of why measurement is needed. Grayson and Hodges' (2001) reasons for measurement include the following:

- To benchmark performance and set targets for continuous improvement;
- to answer specific allegations that have been made against the company;
- to understand concerns of stakeholders;
- to help to spot where there may be a need for new policies;
- to satisfy regulatory requirements;
- to earn third-party endorsement through external awards and kitemarks;
- to provide the data that a commercial consumer may require in order to put a firm on its tender list - specific relevance in the SA context; and
- to build trust in internal and external stakeholders.

The Business Impact Task Force in the UK (2001) reported the following indicators when measuring is done:

- Workforce indicators
- Marketplace indicators
- Environment indicators
- Community indicators
- Human Rights indicators.

According to Zadek and Nelson (2002), indicators are used to simplify measure and communicate complex trends and events. They also strongly argue that measurement plays a critical role in the evolution of new social partnerships. Partners and other stakeholders need to work together in developing relevant indicators both as a means of establishing a commonly agreed approach to assessing performance, and as a means of growing mutual understanding, trust and sharing working experience. These roles can best be fulfilled if the development and use of indicators is part of a systematic framework of social accountability and reporting that embraces a real engagement between participants and other stakeholders. Recent years has seen the emergence of social and ethical accounting, auditing and reporting as a means of business in particular to measure its social ethical and environmental performance, hence the "triple bottom line" reporting principle. Although the main objective of the study is to identify critical indicators for corporate social performance, it recognises the integral part of environmental and economical indicators in overall performance.

A number of accounting and reporting standards are emerging covering social performance measurement and communications:

- The Global Reporting Initiative.
- AA 1000 - covering the process of accounting, auditing and reporting and focusing on the quality of dialogue and overall stakeholder participation.
- The Council for Economic priorities has established SA 8000 as an accounting and reporting standard covering labour standards in global supply chains.

Finally, according to Zadek (1999), there has been growing concern over the difficulty of assessing and ensuring the quality of these measurement practices. Civil society organisations, the media and opinion leaders are challenging their inclusivity, completeness and meaning. Adopting organisations are increasingly questioning their usefulness in strengthening their ability to measure, manage and improve performance, and to demonstrate this performance effectively. Concerns are also emerging as to the competencies and objectivity of those offering services in this field. Furthermore reporting has not always provided a credible description of historical events or underpinning of meaningful accountability. The demands for credible assurance are on the increase to offer a balanced complete, accurate and relevant picture of the organisation's approach to, and impact on society and the natural environment. Closing the credibility gap will remain a challenge in years to come as the profession of social accounting is in its infant shoes. The AA 1000S Assurance Standard (Consultation Document of Accountability Institute, June 2002) seeks to close the gap to strengthen the credibility of public reporting.

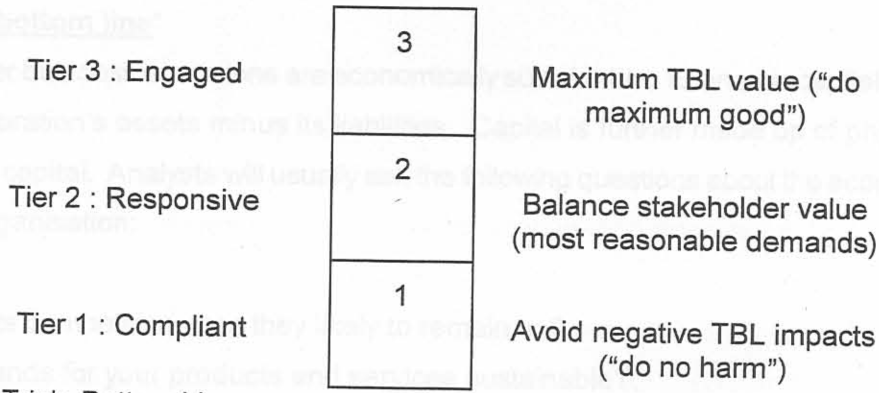
6.1.1 Social reporting and stakeholder engagement

According to Woodward (2001) consensus regarding new social accounting and assurance processes needs to be in the context of maintaining and enhancing the fundamental principle of accountability: inclusivity - the reflection at all stages of the social and ethical accounting process over time of the aspirations and needs of all stakeholder groups. This is critical if other, perhaps even more important; challenges facing reporting companies are to be met. The challenge is to produce meaningful and reliable information on "new" areas of performance, such as human rights and labour standards, and where appropriate, to be accorded legitimacy by all stakeholders. Incorporating inclusivity therefore remains a vital philosophy in social accounting and reporting, and therefore this topic is included as part of the introduction of Chapter 6. The argument therefore strongly suggests that the following three key questions be asked in ensuring inclusivity (Woodward 2001):

- What will be reported on? (This question - relates to the key objective of this study, namely to develop key SA indicators for corporate social performance.) It is however, important to note that internal as well as external stakeholders need to be part of determining the indicators that will be reported on.
- Who will deliver the verification? Stakeholders need to be involved with selecting external or third party assurance.
- How to execute assurance in a participatory fashion? There are however opposing arguments as to whether stakeholders should be part of the assurance activity. Lack of verification capability, sensitivity over their involvement compromising their independence, being outside their mandate are a few arguments against involving close stakeholders in the verification process.

There seems to be general consensus that stakeholders should rather retain independence, but form part of the overall planning of social accounting and reporting demonstrating and living the philosophy of inclusivity. The consensus further confirms that accountability reports need to describe how stakeholders have been cancelled in each phase of the reporting and assurance process so that those not directly involved know it has happened and can factor it into their judgements on corporate social performance.

Finally Wheeler (2001) offers a three-tier model (Figure 6.2), spanning the breadth of philosophical debate on the purpose of the corporation and reflects the two most oft-posited assertions for business ethics and corporate responsibility: "do no harm" and "do maximum good". The model simply restates these two assertions in the three dimensions of sustainability and places them in Tier 1 and Tier 3 respectively, with an intermediate level (Tier 2) as the interface where, "typically, life is ambiguous and messy".



TBL: Triple Bottom Line

Figure 6.2: Classifying organisations (Source: Wheeler 2001)

Figure 6.2 shows the importance of stakeholder engagement in social performance and accounting. It also refers to the impact on TBL which ultimately refers to measuring the impact on social, environmental and economic levels. The next section will therefore offer an overview of the meaning of "triple bottom line" reporting.

6.2 THE "TRIPLE BOTTOM LINE" (TBL)

There is consensus among large firms which are members of the World Business Council, on sustainable development that corporate responsibility should be defined in three dimensions: the social, the environmental and the financial (Wheeler 2001). This is consistent with Elkington's (1998) thinking on the "triple bottom line" which calls for firms to achieve balanced progress on economic development, environmental quality and social justice. Of these, Wheeler (2001) argues, it is probably the social dimension that is the least developed in terms of corporate strategy and practice. However, if the social dimension is unwrapped, it is possible to construct models and frameworks which may help categorise and explore companies'' orientation towards society and thus the more broadly defined concept of sustainability. The literature chapters have attempted to "unwrap" this social dimension, leading to Chapter 6 that will specifically review the measurement of social impact.

Mitchell (1998) views the social dimension as the root of the global sustainability crisis. He concluded by arguing that political and social issues exceed the mandate and capabilities of any corporation. He points out that the paradox lies in the fact that it is only organisations with the resources, technology, global reach and ultimately the motivation to achieve sustainability. Mitchell (1998) argues that "there is no question that some of these issues can have - indeed, already have had - a profound impact on the financial bottom line". The following section will offer a brief overview of the "triple bottom line" in order to contextualise it within the framework of this chapter, dealing with social measurement and reporting.

6.2.1 "Economic bottom line"

This refers to whether business operations are economically sustainable. Economic capital is the total value of a corporation's assets minus its liabilities. Capital is further made up of physical financial and human capital. Analysts will usually ask the following questions about the economic bottom line of the organisation:

- Are your costs competitive - are they likely to remain so?
- Are the demands for your products and services sustainable?
- Is your rate of innovation likely to be competitive in the longer term?
- Are your profit margins sustainable?

Economic or financial bottom line certainly is viewed as the area in which the business world feels most at home.

6.2.2 "Environmental bottom line"

The social agenda for business probably has a longer history than the environmental agenda, considering early controversies concerning slavery, child labour and working conditions. Paradoxically Mitchell (1998) argues that many business people these days feel happier being challenged on environmental issues than on social issues. It is quite obvious that a corporation cannot survive without natural capital. Natural capital (in the case of a forest) is not simply a question of counting the trees and trying to put a price-tag on the lumber they represent. The underlying natural wealth which supports the forest ecosystem is as important. Furthermore, the following need to be added into the equation, i.e. contributions to the regulation of water (in the atmosphere, water table soils and surface waters), of greenhouse gases such as carbon dioxide and methane and then there are all the flora and fauna, including commercial fisheries, whose health is linked to the health of the forest (Mitchell 1998).

Natural capital can also be thought of as occurring in two main forms: "critical natural capital" and renewable, replaceable or substitutable natural capital. Companies are held accountable not only by regulators, but increasingly by environmental activists and the media. Furthermore, as companies begin to challenge their supply chains, a new dimension of pressure is being introduced. According to Mitchell (1998), environmental bottom line aims to rebalance the treatment of environmental costs and benefits in conventional accounting practice; separately identify environment-related costs and revenues within the conventional accounting system ; devise new forms of valuation which encourage better management decisions and increased investment in environmental protection and improvement; develop new performance indicators, to track progress; and experiment with ways in which sustainability considerations can be assessed and incorporated into mainstream accounting.

6.2.3 "Social bottom line"

In Fukuyama's book Trust: The Social virtues and the creation of prosperity, social capital is defined as "a capability that arises from the prevalence of trust in a society or in certain parts of it". It is a measure of the"ability of people to work together for common purposes in groups and organisation". This ability, according to Mitchell (1998), is likely to be crucial to the sustainability transition. A key assumption in the work of the Sustainability Institute in the UK in recent years is that sustainable development is most likely - and will be achieved at the lowest overall cost to the economy - in those societies where there are the highest levels of trust and other forms of social capital.

Among the questions business people will need to ask are (Mitchell 1998):

- What are the crucial forms of social capital in terms of our ability to become a sustainable corporation?
- What are the underlying trends in terms of the creation, maintenance or erosion of these forms of capital?
- What is the rule in business in sustaining social capital?

As globalisation gathers steam, the interface between the economic and social bottom lines become increasingly problematic. It is therefore clear that there is a new stirring of interest in social accounting and audits. With the advent of the KING 2 report on non-financial governance and reporting, the SA landscape is currently characterised by dynamic interfaces between all sectors of society. New models of stakeholder capitalism have progressively drawn the boundaries in order to include an ever-widening range of stakeholders. Finally, the aim of the so-called social bottom line is to assess the impact of an organisation or company on the people both within and outside it. Chapter 6 will offer specific examples and recent frameworks on social accounting and social indicators, leading to the last chapter of the study, i.e. to offer South African indicators for corporate social performance.

6.3 ACCOUNTABILITY STANDARDS

The following section of Chapter 6 will offer an overview of accountability standards as developed by Accountability: Institute of Social and Ethnical Accountability (UK).

> Organisations are faced with many pressures. They have no alternative but to engage with stakeholders, build relationships, underpinned by shared values and interests, and demonstrate practical responsiveness to reasonable expectations. Accountability was established to help organisations address this challenge (Zadek 1996).

Accountability is an international membership organisation committed to enhancing the performance of organisations and to developing the competencies of individuals in social accountability and sustainable development. Accountability was established as a non-profit organisation in 1996 by a coalition of leading-edge practitioners, NGOs, businesses and universities. It is governed by an international council including members affiliated to British Telecom (UK). Business for Social Responsibility (USA), the Co-operative Bank (UK), Copenhagen Business School (Denmark), Instituto Ethos (Brazil), KPMG (UK), Learn (South Africa), New Economics Foundation (UK), Nova Nordisk (Denmark) and PriceWaterhouseCoopers (UK).

Accountability is a catalyst of research and learning in collaboration with other organisations. Current programmes address corporate performance with regard to labour standards in supply chains, learning and innovation in business-community partnerships, effective web-based stakeholder engagement and the link between corporate social responsibility standards and public policy. Accountability Institute is regarded as a world leader in developing standards and in the practice social accounting. It is for this reason that the next section will focus on the standards (AA 1000) as developed by AccountAbility and used globally.

6.3.1 "AccountAbility 1000 Standards" (AA 1000)

(i) **Definition**

To account for something is to explain or justify the acts, omissions, risks and dependencies for which one is responsible to people with a legitimate interest in them.

To discharge its accountability, an organisation has to account for its acts, omissions, risks and dependencies. However, in addition to this accounting requirement of transparency, accountability also entails a broader obligation of responsiveness and compliance.

- **Transparency** concerns the duty to account to those with a legitimate interest - the stakeholders in the organization.
- **Responsiveness** concerns the responsibility of the organisation for its acts and omissions, including the processes of decision-making and the results of these decisions. Responsiveness entails a responsibility to develop the organisation's performance.
- **Compliance** concerns the duty to comply with agreed standards regarding both organisational policies and practices, and the reporting of policies and performance.

(ii) **Background**

AccountAbility 1000 (AA 1000) is an accountability standard, focused on securing the quality of social and ethical accounting, auditing and reporting. It is a foundation standard and as such can be used in two ways:

- As a common currency to underpin the quality of specialised accountability standards, existing and emergent.
- As a stand-alone system and process for managing and communicating social and ethical accountability and performance.

AA 1000 comprises principles (the characteristics of a quality process) and a set of process standards. The process standards cover the following stages:

- Planning
- Accounting
- Auditing and reporting
- Embedding
- Stakeholder engagement

The principles and process standards are underpinned by the principle of accountability to stakeholders.

(iii) **Accountability and performance**

The AA1000 process standards link the definition and embedding of an organisation's values to the development of performance targets and to the assessment and communication of organisational performance. By this process, focused on the organisation's engagement with stakeholders, AA1000 ties social and ethical issues into the organisation's strategic management and operations. AA1000 aims to support organisational learning and overall performance - social and ethical, environmental and economic - and consequently organisations' contributions towards a path of sustainable development.

It seeks to achieve its aim through improving the quality of social and ethical accounting, auditing and reporting.

(iv) **Applications of AA1000**

The AA1000 is focused on improving the overall performance of adopting organisations. The following is not a complete list, but it illustrates the possible applications of AA1000 to the benefit of an organisation and its stakeholders:

- **Measurement** - The AA1000 standard outlines a process by which key performance indicators are identified by an organisation through engagement with its stakeholders. The organisation and its stakeholders are brought together to work towards a common understanding of what matters about performance.
- **Quality management** - By measuring, communicating and obtaining feedback on its social and ethical performance an organisation will be better placed to understand and respond to the needs and aspirations of its stakeholders, and to manage these alongside (and as part of) its objectives and targets.
- **Recruitment and retention of employees** - By clarifying its values and reporting on its performance, an organisation can improve the recruitment of high quality employees. The loyalty of existing employees will also be supported by evidence of commitment to building a better organisation and by the development of programmes to improve training and other aspects of employee welfare.
- **External stakeholder engagement** - AA1000 can play a key role in building an organisation's relationship with its external stakeholders. Consumers, suppliers and broader society are able to see how an organisation's behaviour matches their aspirations, and are better positioned to articulate their opinions. An

organisation, in turn, will have more sensitive and accurate information on which to base decisions, and a climate of increased trust in which to implement them.

- **Partnership** - AA1000 can support the deepening of value-based relations along an organisation's supply chain and in other partnership processes.
- **Risk management** - AA1000 can be integral to a framework for internal control to enable an organisation to identify, evaluate and better manage the risks arising from its impacts on and relationships with its stakeholders. These may include risks to reputation and brand, and in the case of customer and employees, liability suits.
- **Investors** - AA1000 can play a critical role in satisfying the increasingly complex demands for information from investors. For most investors, clear and verifiable information on social and ethical performance and stakeholder perceptions and expectations provides a valuable reference point for assessing the quality of management and the market positioning of an organisation.
- **Governance** - AA1000 can play a key role in supporting an organisation's governance. The standard feeds into the organisation's control process by which it ensures the alignment of its values and strategy with its behaviour and the outcomes of its activities.
- **Governance and regulatory relations** - The adoption of AA1000 can play a part in encouraging governments to acknowledge the self-regulating processes that organisations are following to improve accountability and performance.
- **Training** - AA1000 facilitates the training and the identification of qualified and experienced service providers. Trained social and ethical accountants and auditors will help an organisation, from within and also outside it, to improve its accountability and performance.

(v) **Principles**

The AA1000 principles identify characteristics of a quality process. These principles can be used in designing and managing an organisation's social and ethical accounting, auditing and reporting process, and may also be used in assessing the quality of its process.

The hierarchy of the AA1000 principles is as follows (and is illustrated in Figure 6.3).

- A quality process of social and ethical accounting, auditing and reporting is governed by the principle of accountability.
- Organisational accountability is directly addressed by the inclusivity of the social and ethical accounting, auditing and reporting process. Inclusivity concerns the reflection at all stages of the process of the aspirations and needs of all

stakeholder groups. Stakeholder views are obtained through an engagement process that allows them to be accurately and fully expressed without fear or restriction. Inclusivity requires the consideration of "voiceless" stakeholders including future generations and the environment.

- Inclusivity is supported by, and infuses the operational meaning of the remaining AA1000 principles. These can be divided into three broad groups, relating to the scope and nature of the organisation's process; the meaningfulness of information; and the management of the process on an ongoing basis.

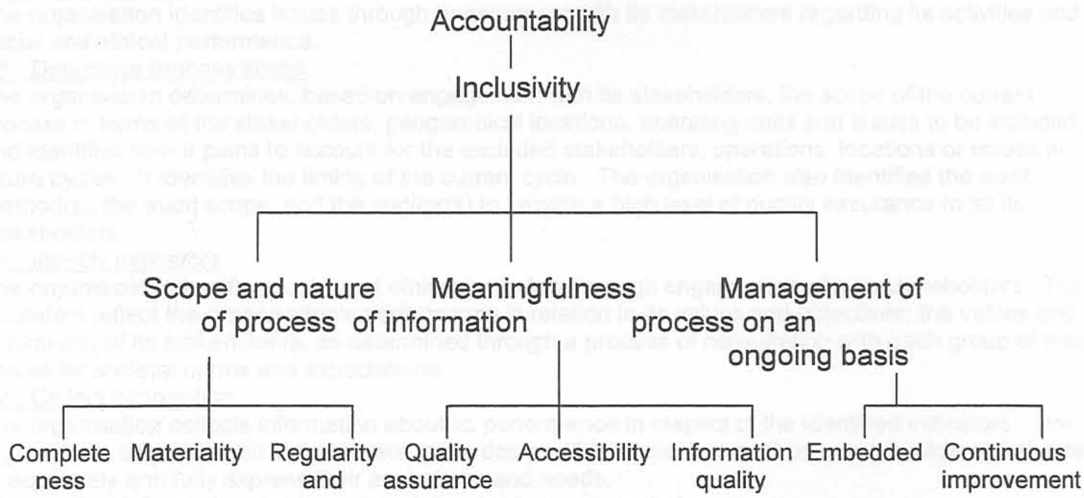


Figure 6.3: The AA1000 principles (Source: AccountAbility 2001)

(vi) **The AA1000 Process Model**

Table 6.1 offers an overview on the AA1000 process flow. The process flow deals with a planning phase, the accounting phase during which the actual accounting is done, the auditing phase which includes the compiling of the report and finally embedding the accounting process in management systems and procedures.

Table 6.1: AA1000 Process Flow (Source: AccountAbility 2001: 13)

Planning

(Process 1 Establish commitment and governance procedures

The organisation commits itself to the process of social and ethical accounting, auditing and reporting and to the role of stakeholders within this process. It defines governance procedures to ensure the inclusion of stakeholders in the process.

P2 : Identify stakeholders

The organisation identifies its stakeholders and characterises its relationship with each group of them.

P3 : Define/review values

The organisation defines or reviews its current mission and values.

Accounting

P4 : Identify issues

The organisation identifies issues through engagement with its stakeholders regarding its activities and social and ethical performance.

P5 : Determine process scope

The organisation determines, based on engagement with its stakeholders, the scope of the current process in terms of the stakeholders, geographical locations, operating units and issues to be included, and identifies how it plans to account for the excluded stakeholders, operations, locations or issues in future cycles. It identifies the timing of the current cycle. The organisation also identified the audit method(s), the audit scope, and the auditor(s) to provide a high level of quality assurance to all its stakeholders.

P6 : Identify indicators

The organisation identifies social and ethical indicators through engagement with its stakeholders. The indicators reflect the organisation's performance in relation to its values and objectives; the values and aspirations of its stakeholders, as determined through a process of consultation with each group of them; and wider societal norms and expectations.

P7 : Collect information

The organisation collects information about its performance in respect of the identified indicators. The organisation engages with stakeholders in the design of the collection methods, which allow stakeholders to accurately and fully express their aspirations and needs.

P8 : Analyse information, set targets and develop improvement plan

From the information collected, the organisation :

- Evaluates its performance against values, objectives and targets preciously set
- Uses this evaluation and engagement with stakeholders to develop or revise objectives and targets for the future, with a focus on improving performance.

Auditing and reporting

P9 : Prepare report)s)

The organisation prepares a social and ethical report (written or verbal communication) or reports relating to the process undertaken in a specified period. The report clearly and without bias explains the process and demonstrates how the organisation's performance relates to its values, objectives and targets. It includes information about its performance measured against its key social and ethical performance targets. The organisation provides comparative information for previous period(s) to help stakeholders understand the current performance in the context of prior period trends and in the context of external benchmarks, if available.

P10 : Audit report(s)

The organisation arranges and supports the external audit of the process, including the social and ethical report(s). Support is provided to the auditor throughout the planning and accounting process as appropriate.

P11: Communicate report(s) and obtain feedback

The organisation communicates information on the process and the social and ethical performance of the organisation to all stakeholder groups. This includes making accessible to all stakeholder groups the social and ethical report(s) together with the independent audit opinion(s). The organisation activity seeks feedback from its stakeholder groups in order to further develop its process.

Embedding

P12 : Establish and embed systems

The organisation establishes systems to support the process, and the on-going achievement of its objectives and targets in line with its values. Systems include those to implement and maintain values, to manage the collection and documentation of information, and to perform the internal audit/review of the process.

6.3.2 The AA1000 Assurance Standard (AA1000S)

In the previous section (6.3.1) an overview was given of specifically the AA1000 as an accountability standard. The following section will focus on the assessment of the organisation's public reporting of social and ethical, economic, environmental and overall sustainability performance - known as the AA1000S. In a consultation document (June 2002) by Accountability (UK), the AA1000S is referred to as an approach that provides a coherent and robust basis for assuring a public report and the underlying processes, systems and competencies against the AA1000 definition and principles of accountability. The AA1000S is specifically designed to be consistent with the Global Reporting Initiative Sustainability Reporting Guidelines (GRI) - refer to section 6.4. Despite the GRI guidelines however, and numerous approaches to provide "assurance" of public reporting, there remains a lack of generally accepted assurance standard covering all aspects of organisation reporting. The AA 1000S seeks to close this gap.

(i) Assurance Principles

All the following AA1000S Assurance Principles must be applied in an assurance process that meets the AA1000S standard:

- Completeness
  Requires that the Assurance Provider evaluate the extent to which the reporting organisation has included in its report material information on all its activities, performance and impact.
- Materiality
  Requires that the Assurance Provider evaluate whether the reporting organisation has included in the public report adequate information about its activities, performance and impacts for the reporting organisation's stakeholder to form an understanding of the organisation and to make judgements and decisions.
- Responsiveness
  Requires that the Assurance Provider evaluate whether the reporting organisation has responded to stakeholder concerns, policies and relevant standards and adequately communicated these responses in its public report.
- Accessibility
  Requires that the Assurance Provider evaluate whether the public report is accessible to stakeholders.
- Evidence
  Requires that the Assurance Provider evaluate whether the reporting organisation has provided adequate evidence to support the information contained in the public report.

(ii) **Assurance Provider Standard**

- Credibility

  Competency levels and independence.

- Statement of Independence

  Provider must be demonstrably independent from the reporting organisation.

- Individual Competencies

  Competence should include

  - Professional qualifications.
  - Assurance expertise.
  - Area of expertise.

- Organisational competencies

  The organisations through which individuals provide assurance must be able to demonstrate adequate institutional competencies including adequate assurance oversight, adequate understanding of the legal aspects and the necessary infrastructure to ensure long-term storage of assurance-related material.

6.3.3 SA8000

The Council on Economic Priorities Accreditation Agency's (CEPAA) Social Accountability 8000 (SA8000) is a standard focused on workplace conditions in supply chains. SA8000 has close links with much of the AA1000 process, including: the definition of policy, the monitoring of activities and results, the verification of conformity, the communication of procedures and the development of management systems. SA8000 was developed (and is subject to continuous improvement) through consensus-based stakeholder dialogue and it includes a process of stakeholder governance. It does not however include stakeholder engagement as a core part of the accounting process.

6.3.4 The International Standards Organisation (ISO)

The ISO standards focus on the development and certification of management systems. They incorporate processes of policy planning, implementation, operation checking and corrective action, management review with an overall focus on continuous improvement. Communication is a key element of ISO standards, but there is little emphasis on dialogue with stakeholders. One part of the ISO series, ISO 14001, addresses many of the AA1000 processes, but with a specific focus on environmental issues.

To sum up, the AA1000, AA1000S, SA8000 and ISO 14000 are globally accepted standards of accountability. In the advent of a growing global emphasis on responsibility and accountability, especially post-ENRON and WORLDCOM, an increase in importance of these standards is emerging. There is furthermore increasing evidence that regulation on social and environmental impact is emerging, which confirms the rigorous application of accountability standards. In addition, social and environmental reporting depends on generally accepted accounting (social) practices and indicators to ensure fairness and parity amongst reporting organisations and assurance providers. The importance of standards could therefore not be overemphasised.

6.4 THE GLOBAL REPORTING INITIATIVE (GRI)

In Chapter 2 a brief overview was given of the GRI guidelines. Chapter 6 however, will focus in more detail on the principles and reporting content of the GRI as well as the link between GRI and accountability frameworks.

The GRI is a long-term, multistakeholder, international process whose mission is to develop and disseminate globally acceptable sustainability (GRI Guidelines 2002). These guidelines are for voluntary use by organisations for reporting on the economic, environmental and social dimensions of their activities, products and services. The aim of the guidelines is to assist reporting organisations and their stakeholders in articulating and understanding contributions of the reporting organisations to sustainable development.

6.4.1 Reporting principles

The 11 principles will help ensure that reports:

- present a balanced and reasonable account of economic, environmental and social performance, and the resulting contribution of the organisation to sustainable development;
- facilitate comparison over time;
- facilitate comparisons across organisations; and
- with credibility address issues of concern to stakeholders.

The eleven principles are:

- Transparency

  Full disclosure of the processes, procedures, and assumptions in report preparation is essential to ensure credibility.
- Inclusiveness

  The reporting organisation should systematically engage its stakeholders to help focus and continually enhance the quality of its reports.
- Auditability

  Reported data on "formation should be recorded, compiled, analysed and disclosed in a way that would enable internal auditors or external assurance providers to attend to its reliability.

- Completeness

  All information that is material to users for assessing the reporting organisation's economic, environmental and social performance should appear in the report in a manner consistent with the declared boundaries, scope and time period.
- Relevance

  Relevance is the degree of importance assigned to a particular aspect, indicator, or piece of information, and it represents the threshold at which information becomes significant enough to be reported.
- Sustainability context

  The reporting organisation should seek the place its performance in the larger context of ecological, social and other limits or constraints where such context adds significant meaning to the reported information.
- Accuracy

  The accuracy principle refers to achieving the degree of exactness and low margin of error in reported information necessary for users to make decisions with a high degree of confidence.
- Neutrality

  Reports should avoid bias in selection and presentation of information and should strive to provide a balanced account of the reporting organisation's performance.
- Compatibility

  The reporting organisation should maintain consistency in the boundary and scope of its reports, disclose any changes, and restate previously reported information.
- Clarity

  The reporting organisation should remain cognisant of the diverse needs and backgrounds of its stakeholder groups and should make information available in a manner that is responsive to the maximum number of users while still maintaining a suitable level of detail.
- Timelines

  Reports should provide information on a regular schedule that meets user needs and comports with the nature of the information itself.

6.4.2 Reporting content

The report content is organised in what GRI considers a logical order, and reporting organisations are encouraged to follow this structure in writing their reports.

The content comprises five sections:

- Vision and strategy

  Description of the reporting organisation's strategy with regard to sustainability, including a statement from the CEO.

- Profile

  Overview of the reporting organisation's structure and operations and of the scope of the report.

- Governance structure and management systems

  Description of organisational structure, policies, and management systems, including stakeholder engagement efforts.

- GRI content index

  A table supplied by the reporting organisation identifying the place where the information on the guidelines is located within the organisation's report.

- Performance indicators

  Measures of impact or effect of the reporting organisation divided into integrated, economic, environmental and social performance indicators (refer to Table 6.2).

In the 2002 guidelines the hierarchy of performance indicators is structured as follows:

Table 6.2: Indicators in the GRI framework (Source: GRI Guidelines Document 2002: 36)

	Category	Aspect
Economic	Direct economic impacts	• Customers • Suppliers • Employees • Providers of capital • Public sector
Environmental	Environmental	• Material • Energy • Water • Biodiversity • Emissions, effluents and waste • Suppliers • Products and services • Compliance • Transport • Overall
Social	Labour practices and decent work	• Employment • Labour/management relations • Health and safety • Training and education • Diversity and opportunity
	Human rights	• Strategy and management • Non-discrimination • Freedom of association • Child labour • Disciplinary practices • Security practices • Indigenous rights
	Society	• Community • Bribery and corruption • Political contributions • Competition and pricing
	Product responsibility	• Customer health and safety • Products and services • Advertising • Respect for privacy

6.4.3 GRI and accountability frameworks

According to Willis (2002), stakeholder expectations regarding corporate responsibility for environmental, social and ethical conduct are now being more loudly voiced than at any other time in history. Business enterprises have evolved from a time when their internal management systems and external accountability processes were based solely on the expectations of their owners - typically shareholders with their legally entrenched rights. Businesses have realised that accountability to a number of stakeholders is the key, although the number of organisations following these paths of implemented management systems and reporting to all stakeholders are still few (Willis 2002). Although accountability frameworks exist, there seems to be confusion in the use of these methodologies for example:

- verification of whether labour practices within a facility comply with relevant codes and standards is not the same as;
- audit of an environmental management system to assess its conformity with ISO14001, which in turn is distinct from; and
- assurance about the fairness, completeness and reliability of a sustainability report prepared in accordance with the GRI guidelines.

In other words, external stakeholders seek assurance that they can trust the completeness and fairness of reports whereas in turn, reporting companies and their boards need assurance about the integrity and quality of internal systems and processes for managing the widening spectrum of accountability. This gap in expectations can indeed be bridged through the GRI guidelines and AA1000S assurance standards. According to Willis (2002), through carefully nourished cross-fertilisation between the GRI and Accountability programmes, there is a welcome synergy between the GRI guidelines and the AA1000 series. Any organisation will therefore find it has a new but already powerful and practical set of tools to help it narrow, if not close, the complex expectation gaps it faces regarding accountability and assurance.

6.5 SOCIAL RISK MANAGEMENT

One of the major advantages of social measurement and accountability standards and guidelines is that it allows a reporting company to manage social and environmental risk more vividly. It was mentioned in Chapter 3 that social risk management is a relatively new concept and although not directly managed by organisations, is in most cases indirectly referred to by organisations following the Enterprise Wide Risk (EWR) methodology. Furthermore, in the next few years it is likely that companies will face strong pressures for the integration of corporate social responsibility (CSR) management into mainstream governance and risk management functions (MacKenzie 2001).

In October 2001 the Association of British Insurers (ABI) published guidelines for companies on the effective governance of risks arising from CSR issues. These guidelines are likely to require boards to take formal responsibility for assessing the risks of and opportunities for their company arising from CSR issues. According to ABI, companies will be expected to disclose in their annual report information on:

- CSR issues which pose significant risks or opportunities to the company;
- the policy and management systems to manage these risks and opportunities; and
- the effectiveness of these policies and management systems.

The ABI guidelines will be supplied by some of the largest asset managers in the UK which means that investors will have a direct interest in ensuring effective responses by companies. Already it is evident that the investor society is being influenced by CSR principles in their investment decisions which again highlight the strong movement of corporate citizenship into the mainstream business realm. Mackenzie (2001) reports two very significant implications for the CSR community:

- It will force it to consider the "business case" for CSR with rather greater precision than it has been able to get away with in the past. Companies are going to want to know which CSR issues are likely to have a significant impact on shareholder value and consequently impact on the future success of their company.
- Social risk management will require CSR professionals to learn the language and tools of corporate governance and risk management, and to "translate" their vocabulary and procedures into those that are comprehensible and useful to company secretaries, risk managers and internal auditors.

In summary, Jones and Towle (2001) argue that whilst CSR is, in theory, recognised as a viable means of addressing a company's responsibility to society, it is not until companies also look at the risk imperatives, that CSR will become the core of the business strategy. This is where the common sense of self-regulation through social and ethical accounting becomes evident.

> In the UK, we have seen the words "Turnbull" and "risk management" appear more and more frequently over the past two years. This, to most, has not meant a new approach or even a dash for CSR - it has simply meant that more responsibility was woven, sometimes, unbeknownst to management, into the company's governance and operating system, and this (where noticed at all by management) was accepted by them without a comprehensive understanding of what the risks were (Jones & Towle 2001).

Unfortunately, due to the recent emergence of social risk, there is still uncertainty amongst most corporations about their definition of social, environmental and political risks. The indicators of corporate social performance, the aim of this study, could share some light on possible areas that would require integration into management systems in order to manage social risks effectively. The World Bank report on social protection (2001) offers a framework for social risk management which will be dealt with in the following section.

6.5.1 Social risk framework

According to the World Bank (2001) the underlying framework of social risk management has the following features:

- It regards social protection as a springboard, as well as a safety net for poor people.
- It regards social protection as investments rather than costs. For example, helping poor people to maintain their access to basic social services during shocks fosters their future productive capacity.
- It focuses less on the symptoms and more on the causes of poverty by making it possible for poor people to engage in activities that have higher risks but also higher returns, and thus avoiding poverty traps.
- It takes account of reality. Less than a quarter of the world's population has access to formal social protection programmes and less than 5% can rely on private assets to manage risks.

Table 6.3 provides an overview of the main sources of risk.

Table 6.3: Main sources of risk (Source: The World Bank 2001: 12)

	Micro (Idiosyncratic)	**Mesco**	**Macro (Covariant)**
Natural		Rainfall, landslides, volcanic eruption	Earthquakes, floods, drought, strong winds
Health	Illness, injury, disability	Epidemic	
Lifecycle	Birth, old age, death		
Social	Crime, domestic violence	Terrorism, gangs	Civil strife, war, social upheaval
Gender	Control over household resources	Social acceptance of gender violence	Legal discrimination against women
Economic	Business failure	Unemployment Resettlement Harvest failure	Output collapse Balance of payments, Financial or currency crisis Technology- or trade- induced terms of trade shocks
Political	Ethnic discrimination	Riots	Political default on social programmes Coup d'ètat
Environmental		Pollution Deforestation Nuclear disaster	

The World Bank has developed different kinds of social risk management arrangements over time. These fall into three main categories:

- Informal arrangements

  Individual household's responding to risk by protecting themselves.
- Market-based arrangements

  Sound banking and non-inflationary policies are crucial to reducing and managing risks.
- Public arrangements

  In the absence of the previous two arrangements, government can provide or mandate (social) insurance programmes for risks such as unemployment, old age, work injury, disability, etc.

It is finally important to offer an overview (see Table 6.4) of the social risk management strategies. This framework or matrix is a powerful diagnostic and analytical instruction, since it takes into account the different sources and economic characteristics of risks, proposes alternative strategies and arrangements of dealing with risks and highlights different actors in the supply and demand of risk management instruments:

Table 6.4: Social risk management matrix (Source: The World Bank 2001: 15)

Arrangements and strategies	Informal	Market-based	Public
Risk reduction			
	• Less risky production • Migration • Proper feeding and weaning practices • Engaging in hygiene and other disease-preventing activities	• In-service training • Financial market literacy • Company-based and market-driven labour standards	• Public labour standards • Pre-service training • Labour market policies • Child labour interventions • Disability policies • Good macro-economic policies • AIDS and other disease prevention • Legislation to remove gender inequalities in property rights, marriage, and access to labour markets
Risk mitigation			
Portfolio	• Multiple jobs • Investment in human, physical, and real assets • Investment in social capital (rituals, reciprocal gift-giving)	• Investment in multiple financial assets • Microfinance	• Multipillar pension systems • Asset transfers • Protection of property rights (especially women) • Support for extending financial markets to poor people
Insurance	• Marriage-family • Community arrangements • Share tenancy • Tied labour	• Old-age annuities • Disability, accident, and other personal insurance • Crop, fire, and other damage	• Mandated/ provided insurance for unemployment, old-age, disability, survivorship, sickness, etc.
Risk coping			
	• Selling of real assets • Migration • Borrowing from neighbours • Intra-community transfers/charity • Sending children to work • Dis-saving in human capital	• Selling of financial assets • Borrowing from banks	• Transfers/social assistance • Subsidies • Public works

6.6 CHALLENGES FACING SOCIAL MEASUREMENT, AUDITING AND REPORTING

The following challenges represent some examples of areas within the broader field of social measurement and reporting. Although the whole field is relatively new, only becoming a scientific driving imperative in the CSR field since the mid-nineties, these challenges were chosen on the basis of its nature being questioned by leading experts in the field (Zadek, Grayson, Nelson et al.) recently.

6.6.1 Business case for social measurement

An overwhelming concern with promoting the business case, together with a profound reluctance to address the issue of corporate governance, despite an apparent commitment to stakeholder dialogue and engagement, deprives social and ethical accounting of its vital edge. Crucially, the failure to address the dimension of corporate power largely removes any potential for enhancing the accountability and transparency of powerful economic organisations (Owen 2001).

Translating any new and sometimes controversial developments in the business world into business terms always leads to some levels of scepticism and reluctance. Recent years have seen advocates of social and ethical accounting from a wide spectrum (encompassing corporate interest, NGOs, "big five" accounting practices, leading consultancies and government) reach a broad consensus on two issues (Owen 2001):

- Stakeholder dialogue and engagement must underpin the process and provide the primary means for developing meaningful reporting structures.
- Social and ethical accounting has little future if the "business case" for its adoption, in terms of demonstrating potential for adding value to the business and its shareholders, cannot be satisfactorily established.

One often finds an array of challenging outcomes associated with conferences and workshops dealing with the business case for social accounting which, in turn, lead to even more scepticism amongst seasoned business people. Amongst those "gripping" outcomes are:

- "understand how social and ethical factors impact on shareholder value.
- measure and manage non-financial performance information successfully.
- quantify the business benefits of social and environmental reporting.
- link sustainability of corporate performance with corporate reputation.
- build solid reputational risk strategies."

According to Owen (2001) at best the business case for social and ethical accounting promotes a soft form of corporate accountability. Stakeholder engagement and dialogue are seen as an attempt by the business sector to build into the process. The main reason for this is that existing power differentials between organisations and their non-financial stakeholders remain unaltered and thus mutual vulnerability is not established. Furthermore, in the advent of globalisation, and re-regulation, a huge increase in power accruing to corporates is also emerging. Therefore, it seems that CSR is viewed purely as instrumental towards a self-serving objective. Stakeholder engagement can do little to counter the economic "imperatives' of globalisation which, as reported in Chapter 3, is a trend that will become more noticeable in future.

> The fundamental flow in pushing the business case for social and ethical accounting lies in a failure to recognise that stakeholder conflict, rather than harmony permeates much corporate activity, and that such conflict is invariably resolved in favour of the financial stakeholder (Owen 2001).

Will Hutton, widely regarded as the leading advocate of stakeholder capitalism in recent years, has himself forcefully argued that changing business culture is, at least in part, dependent on reform being introduced into company law, so that enforceable obligations are owed by companies to their stakeholders. This strategy correlates with the importance of integrating social accounting into mainstream business processes and systems, transferring the way business is conducted. Furthermore there are already signs of stakeholder fatigue, specifically in developing economies like SA. NGOs and civil society in general seldom possess the resources, competencies, or indeed legitimacy, to perform the central role as envisaged for them in the social accounting process. This invariably leads to the perception because of the "power" the business sector brings to the table that the latter is "controlling" the dialogue or more likely the monologue. This indeed is dangerous specifically if the notion favours stakeholder "management" instead of stakeholder "engagement".

To sum up, the debate certainly will continue on developing a business case for social accounting. It will also remain a balancing act between the powers of stakeholder groupings. A fundamental principle however should be to promote serious debate. Stakeholderism, in the truest sense of the term, remains a most radical concept.

6.6.2 Civil governance

The "new" social partnerships as referred to in 6.6.1 lead to a major shift in the practice of governance. The challenge is the balance and measure of the impact of these roles (as referred to also in 6.6.1), the responsibilities and capabilities of different levels of government (local, national, regional, global) and sectors in society (public, private and civil society). According to Zadek and Nelson (2001), these shifts in the structures, process, and scope of governance emerge from deeply rooted changes in the global economy and associated shifts in organisational, technological and political processes. These challenges are still in their early stages and will continue to impact on governance as they evolve. Social accounting in future will have to reflect the influence of business and civil society on public policy as well as the businesses' role in influencing the evolution of policy and practice within civil society organisations. The level of interaction, intimacy and trust between these groups requires a greater degree of civil governance resulting in improved levels of accounting and reporting.

In its report Creating the Enabling Environment (2001), the Prince of Wales Business Leaders Forum identifies five principles of good governance or challenges. The principles are key objectives and need to secure both an efficient and participative process of decision making in this shifting social and political environment (Zadek and Nelson 2001). These challenges are:

- Co-ordination within and across government

  Social development issues and practices have traditionally been boxed within separate government departments (e.g. health, welfare, education, etc), underestimating the importance of their relationship and the need to link public policy and practice in achieving coherent societal improvements. In SA this is particularly true and with increased movement on public-private partnerships in SA, the business sector can play a significant role in forging more co-ordination within and across government.
- Consultation beyond government

  The need to recognise and establish more structured procedures for consulting with diverse stakeholder groups. Again, in SA, there is increasing evidence of multistakeholder consultation which however asks for more practical measurement and governance in order to ensure social transformation.
- Citizen participation

  The "new" social partnerships open a new scope for citizenship participation. In SA rural communities are but one such an example of citizen interaction which is needed in social transformation and corporate citizenship. In the social report evidence will have to be provided of this interaction.
- Corporate responsibility

  Business needs to navigate a path of social responsibility (corporate citizenship) that yields:

  - commercial success; and
  - an explicit contribution to society by doing business in a manner that enhances the positive social externalities and minimises the negative ones.
- Capacity building

  Good intentions and a willingness in principle to work across untraditional boundaries and with unlikely partners are necessary but not enough for good effective civil governance. There must be specific skills and capabilities to turn intentions and goodwill into concrete and effective activities. Therefore a fundamental element of measuring an organisation's contribution towards civil governance will be the levels of capacity building and skills transfer to a variety of stakeholders.

Finally, governance structure is changing fundamentally at all levels of society, locally, nationally and globally. The way this transition develops will have critical implications for the ability of communities and countries to address the challenges of economic competitiveness, social cohesion and sustainable development. The new social partnerships possess a set of dilemmas or challenges that have important implications for governance. The following key questions represent the challenges:

- Will citizen participation be enhanced or undermined by the growth in governance forms embodied in these new social partnerships?
- What are the implications for the state? Can the institutions of government rise to the challenge of handling increasingly complex, multisectoral relationships? Can the growing and more explicit roles of business be balanced with the continued need for governments to regulate business activities?
- Will the business community engage in broader societal processes with combined societal and financial purposes? In other words, can business develop its values to support a new understanding of how social and environmental responsibility and accountability can form the foundations for both long-term market competitiveness and contributing to meet social aims?

6.6.3 <u>Independent assurance of corporate responsibility reports</u>

In an article by Macaskill and Johnston (2002) a strong argument in favour of independent report verification activities is posed. They state that it is often the insights provided into gaps, strengths and weaknesses in internal management and reporting processes that are cited before the value brought to the integrity of the external reports itself. The challenge for independent assurance lies in the complexity in measuring issues such as employee development, social investment and human rights. The assurance processes seem to be more mature for issues such as safety, health and environment.

Macaskill and Johnston (2002) furthermore state that it is essential that the development of a report assurance exercise includes careful thought, not only as to the external communication of the findings in the context of the report content, but also regarding the communication of the findings to internal audiences. The challenge for external assurance also lies in the extent to which the verification for change and help define priorities for action and improvement. The mere fact that the external assurance leads to a public document may result in the content being publically challenged and reporting companies finding themselves in a potentially difficult position.

A final challenge as stated by Macaskill and Johnson (2002) will be the development of understanding of the interlinkages between external assurance and internal governance and risk management processes. The AA1000 framework and GRI are guidelines that will fast-track not only social measurement and reporting but also external, independent verification.

6.6.4 Measuring social return on Investment

Measuring return on social investment can certainly be regarded as one of the key challenges in the field of corporate responsibility. Many attempts have been made to quantify CSR in terms of a return on investment with varying success. With this challenge in mind and limited proof of a solution, the Roberts Enterprise Development Fund (REDF) has developed a means of calculating, in monetary terms, the social return of investment (SROI) made in certain non-profit organisations. The concept of SROI is gaining recognition, and the technique REDF has designed, with some adjustments, may eventually be useful for evaluating the social return for profit investment as well (MacNeil et al. 2002).

In developing the SROI technique, REDF adopted the following principles:

- The methodology was cultivated as a means of assessing the benefit of each dollar donated or invested in a project to determine whether or not a particular investment is sound.
- REDF defines and measures the social return as the amount of money saved in social services plus the amount of new tax revenue generated by the endeavour. REDFs Index of Return compares the amount of money invested in a project with the amount of money generated or saved as a result of the project.

  The REDF formula:

$$\text{Index of return} = \frac{\text{Value Created in future}}{\text{Investment to date}}$$

REDF acknowledges that investments in social purpose enterprises provide benefits over time that cannot be described in terms of money. Benefits like increase in self-esteem however, are impossible to quantify. Consequently REDF focuses on evaluating the quantifiable monetary aspects of social return.

> Investors may eventually be able to modify REDF's methodology in order to evaluate the SROI received from for-profit investments. For example the challenge will be to use similar methods to quantify the social benefit gained from investing in an overseas company with a human rights policy versus investing in a company that does not have such a policy. Given that

sustainable and responsible investments have been shown to provide financial returns, comparable with those received; using traditional investment strategies, the added value of social return on an investment could convince more investors to use sustainable and responsible investment strategies (MacNeil et al. 2002)

Finally, as proof of the growing importance of and acceptance of SROI as a methodology, The Haas School of Business at the University of California at Berkeley and Columbia Business School have publically recognised the importance of calculating SROI in business ventures. They support this by sponsoring a venture capital contest in which demonstrable SROI is one of the criteria for winning. The two business schools began a joint partnership with The Goldman Sachs Foundation in 2001 to continue the National Social Venture Competition begun by students at Haas in 1999. A participant in the competition needs to "demonstrate sustainable profit potential, have a quantifiable social or environmental bottom line incorporated into its mission, and show a demonstrably greater impact of its social return on investment (SROI) than existing firms in the industry." The ultimate challenge however, will be for the business sector to adopt the same principles as the abovementioned Business Schools in demonstrating SROI.

The following section will specifically deal with the benefits of increased corporate community engagements as reported by Weisser and Zadek (2001).

6.7 MEASURING CORPORATE SOCIAL PERFORMANCE

In a report by Weisser and Zadek, (2001), called Ongoing conversations with disbelievers, some evidence is provided on the "business case" for corporate citizenship. During conversations with "disbelievers", i.e. managers unconvinced and suspicious of the theory that increased corporate investments with the community will help achieve business goals, some evidence was provided on the benefits of increased community involvement. These "conversations" were done through web-based technology, an initiative in October 2002 by Accountability (UK) and The Boston College Center for Corporate Citizenship.

As a result of the study, three primary, interrelated drivers were identified for increased community involvement. The relevance of these drivers, i.e. pressure to comply, company values and long-term business strategy could also be regarded as social performance measurement criteria. The study delivered the following publically available, quantitative measurements:

6.7.1 Stock price and financial performance

For most boards of directors, the key indicators of a CEO's success are the increase in shareholder value, usually as measured by stock price. Corporate community engagement has been shown to help improve financial performance and increase stock price.

Towers Perrin identified 25 companies that excelled in managing relationships with five types of stakeholders: investors, customers, employees, suppliers and the communities in which the companies operate. The 25 companies include Applied Materials, Cisco Systems, Coca-Cola, General Electric, Johnson & Johnson, Procter and Gamble, and Southwest Airlines.

To determine whether companies excelled in managing stakeholder relationships, Towers Perrin used both publicly available sources, such as the Fortune 100 Best Companies to Work for in America and America's Most Admired Companies, and proprietary data on company activities. The analysis shows that these companies, which they refer to as "stakeholder superstars," outperformed the S&P 500 by 126% over the past 15 years. The total shareholder return for these companies was 43%, whereas the total shareholder return from the S&P 500 was only 19 % (Schmidt 2000).

6.7.2 Reputation and risk management

Corporate reputation has become an increasingly important issue for CEOs and top management teams. Research shows that corporate reputation is typically driven by the price, features, and quality of the goods and services that the corporation produces. But more and more, it is also driven by the corporation's commitment to community engagement.

For example, a worldwide study of 25 000 people revealed that 56% of the respondents found a company's social responsibility to be an important factor in forming an opinion of that company, while only 34% found business basics to be important (Choquette & Turnbull 2000).

A press analysis determined that 25% of all IBM news coverage in the US was related to its citizenship activities in the community, to education and to the public interest. Much of the coverage dealt with IBMs technology leadership as well, thereby supporting the company's reputation in both the product and citizenship domains (Litow 2000).

6.7.3 Human resources

Human Resources managers typically focus on issues of workforce development, recruitment and retention. Corporate involvement in the community can help increase employee satisfaction and loyalty and improve recruitment and retention.

In a research study sponsored by the Council on Foundations, Walker Information (1996) found that a company's community engagement activities have a positive effect on worker satisfaction and loyalty. In particular:

- A company's support of employee voluntarism directly influences employees' feelings about their jobs. For example, employees involved in employer-sponsored community events were 30% more likely to want to continue working for the company and help it be a success.
- Employees who perceive their companies as having good corporate social performance view them more positively and are therefore more committed to them. The level of activities (including cause-related marketing, volunteer programmes, and product and service innovations) is a primary determinant of corporate social performance (The Council on Foundations 1996).

The results are similar in Europe. For example Fleishman Hillard found that 87% of European employees feel greater loyalty to socially engaged employers (Fleishman Hillard 1999).

6.7.4 Marketing and sales

Marketing and sales managers are focused on increased sales, product differentiation and customer loyalty. There is strong evidence that corporate engagement in the community, combined with marketing tools and techniques in cause-related marketing, can increase sales and customer loyalty.

- Increased sales

  Many companies report that cause-related marketing can significantly boost sales. For example:

  - Diageo PLC, the world's largest purveyor of alcoholic beverages, reported that between 1994 and 1998, 22 projects helped to raise $600,000 for causes whereas increasing sales of tracked brands increased by 37% (BSR 2000).
- Customer loyalty

  Several studies over the past few years have shown that consumers are drawn to companies associated with a social cause or issue. For example:

  - In the United Kingdom the 1997 Access Omnibus Survey by Business in the Community, a British business membership organisation that supports communities by raising business involvement, found that 86% of consumers say they have a more positive image of a company if they see it is "doing something to make the world a better place." Sixty-four per cent said that cause-related marketing "should be a standard part of a company's business practices" (BSR 2000).

6.7.5 Innovations that expand markets

Corporate community involvement also creates benefits by increasing staff skills, knowledge and access to resources. Through participation with communities in situations that are outside the standard marketplace, a company's staff can extend their understanding of corporate strategy, resources and leadership. This understanding is a key enabler of business performance since it can be applied back to core business activities, thereby expanding markets.

An example of how this works can be seen in home improvement store B&Q's partnerships with disability groups throughout the UK. A partnership between its Norwich store and local disability groups gave the company insight into how it needed to improve customer services with respect to this community. The approach was extended to other stores, always using local disability groups to provide insight and support. B&Q concluded that improving staff training on the issue of disability improved all aspects of customer in-store relations. B&Qs view was that, "if we get it right for disabled people, then we can get it right for most people." This has led to increased sales to disabled people and has increased overall employee satisfaction, retention and productivity rates.

To sum up, the previous section offered proof of the business benefits of community engagement and consequently being a good corporate citizen. Integrating these measurements with generally accepted social accounting practices might close the gap between corporate social responsibility and key business imperatives.

6.8 REPORTING FRAMEWORKS: ADDITIONAL EXAMPLES

The next sections of Chapter 6 will in addition to the AA1000 and GRI guidelines, offer an overview of some recognised reporting frameworks of nine institutions representing the business sector and civil society. These frameworks were developed after in-depth research and consultation between the various institutions and their stakeholders. Furthermore these nine examples have not been selected on any scientific basis, but merely represent some examples of globally recognised and widely applied frameworks in the field of corporate social responsibility.

A SOUTH AFRICAN FRAMEWORKS

6.8.1 The African Institute of Corporate Citizenship (AICC)

The following sixteen areas form part of the AICC/Trialogure Corporate Citizenship Management Rating (CCMR) framework:

Issues relating to workplace/employment:

1. Industrial relations (human resources)

   Including issues for example approach towards engaging in "workplace forums and retrenchments.

2. Human resources and skills development (human resources)

   Including issues for example training as a percentage of wage bill and increasing skills in society through temporary employment programmes.

3. Employment equity (human resources)

   Including issues for example employment equity performance and identification of barriers to employment equity.

4. Occupational health and safety (safety health and environment: SHE department)

   Including issues for example precautions in the event of fire and the application of health and safety evaluation and management systems.

Issues relating to the supply chain:

5. Developmental procurement (procurement)

   Including issues for example the effort to develop Small/Medium Enterprises and "black" business as well as intervention to support suppliers of products and services.

6. Supply chain compliance (procurement)

   Including issues for example analysis of supply chain profile and performance against corporate citizenship criteria.

Issues relating to the environment:

7. Physical environment (SHE department)

   Including issues for example environmental management systems (EIA, EMP, ISO 14000) and compliance with national regulations.

8. Social environment (SHE department)

   Including issues for example social policies and social management systems.

Issues relating to HIV/AIDS:

9. HIV/AIDS (human resources)

Including issues for example measurement and management of HIV prevalence as well as support, counselling and care initiatives.

Issues relating to marketplace:

10. Product stewardship and brand management (marketing)

Including issues for example impact and services on society as well as innovation to improve products and services for society.

Issues relating to governance and control:

11. Ethics, transparency, stakeholder relationships (company secretary or corporate affairs)

Including issues for example a code of ethics as well as the application of ethics within group and extended operations.

12. Black ownership and control (company secretary / corporate affairs)

Including issues for example level of ownership, level of control and sharing of risk.

13. Leadership in corporate citizenship (CEO / Public Affairs)

Including issues for example reporting on corporate citizenship / sustainable development as well as the adoption of international codes (e.g. AA 1000 standards).

Issues relating to corporate social investment:

14. Corporate social investment (CSI manager / corporate affairs)

Including issues for example expenditure falling within the definition of CSI as well as existence of dedicated CSI staff and the utilisation of non-cash resources.

Issues relating to human rights:

15. Human rights (human resources / corporate affairs)

Including issues for example policy on Human Rights as well as "rights-based" assessment of business practices.

16. **Cross-cutting**:

Including the extent to which respondents or departments are **involved** in each area of corporate citizenship, the extent to which respondents or departments are **informed** on each area of corporate citizenship and the perception of how the company is **positioned** regarding its stance on each area of corporate citizenship.

6.8.2 The Business Council for Sustainable Development : South Africa

The Business Council of Sustainable Development: South Africa (2002), suggests the following framework of a sustainable report:

- Statement from the CEO
- An executive summary
- Description of the company's sustainability vision and strategy
- Relevant environmental, social and/or sustainable policies
- Organisational profile, with an overview of the management structure, products and processes
- Lists of stakeholders and the processes used to identify and consult with them
- Sustainability targets and indicators, with detail and progress in achieving targets
- Status of compliance with legal standards
- Economic performance (e.g. air and water emissions; water, energy and resource usage; waste generation; transport practices; biodiversity impacts; noise; and odour)
- Social performance (e.g. employment practices; health and safety; training and education; black economic empowerment; community involvement; supplier relations; freedom of association; child labour; and bribery and corruption)
- An external objective verification statement

According to the Business Council companies may choose an incremental approach, gradually extending the geographic scope, the coverage of sustainability issues, and the target stakeholder groups.

6.8.3 The FTSE/Johannesburg Securities Exchange (JSE) Socially Responsible Investment (SRI) Index

FTSE and the JSE are collaborating to create the FTSE/JSE SRI Index as an evolving means of meeting the complex needs of SRI and as a positive contribution to the debate about CSR. In a draft document by the JSE (October 2002) three principles common to a range of international and local statutes, charter documents and undertakings have been identified. These principles are:

- Environmental sustainability
- Positive stakeholder relationships
- Upholding and supporting universal human rights

The following frameworks per identified principle are as follows:

Environment:

- Policy
  - Responsibility at board level

- Commitment to use targets and timetables, monitoring and audits
- Addresses product or service impact through first-tier production and supply chain

- Management
  - Presence of quality of sustainability policy
  - Identification of impacts
  - Outlined action plans, manuals and procedures

- Reporting
  - Independent verification and compliance with GRI
  - Stakeholder dialogue
  - Performance against target

Stakeholders:

- Policy
  - Address principle issues, adopting code of ethics
  - Equal opportunity policy
  - Public commitment to diversity

- Management
  - Compliance with KING 2
  - Measuring compliance with Code of Ethics
  - Evidence of health and safety systems including HIV/AIDS measures
  - Evidence of equal opportunity systems following on gender, demographics, disability and age
  - Evidence of social impact

- Reporting
  - Text of social and risk management policy and guidelines
  - Quantitative data provision for 50% strategies
  - Independent verification and compliance with GRI
  - Stakeholder dialogue

Human rights:

- Have signed up and can demonstrate commitment to the Universal Declaration of Human Rights

- Can demonstrate a commitment to two or more of the International Labour Organisation Core Labour Standards
- Have signed up and can demonstrate a commitment to Global Compact
- Have signed up and can demonstrate a commitment to the Global Sullivan Principles

B. **INTERNATIONAL FRAMEWORKS**

6.8.4 Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu launced a new scorecard at the WSSD, Johannesburg (September 2002) for sustainability reporting that allows evaluation of the value and quality of sustainability reports for the reporting organisation and its stakeholders. According to Deloitte & Touche the scorecard is both a benchmarking and a learning tool for continual improvement to better design their reports, and for report users to evaluate and compare reports with current best practices in sustainability reporting. The framework or criteria are as follows (Table 6.5):

Table 6.5: Deloitte, Touche Tohmatsu reporting criteria (Source: Deloitte, Touche Tomatsu Social Report 2002)

I. Communicate Effectively	1. Provide corporate context 2. Follow basic principles of reporting (reporting period, scope and entity) 3. Cover quantitive reporting characteristics 4. Design an effective report structure (a "red thread)") 5. Optimise readability (language, pictures, charts, explanations, navigation tools) 6. Allow for quick reading (executive summary, key indicators)
II. Show Relevance	7. Identify and address key stakeholders and report target audience 8. Identify and describe key relevant issues (significant aspects)
III. Demonstrate Commitment	9. Include sustainable development vision and strategy 10. Formulate top management commitment (principles, values, policy) 11. Characterise responsibilities and organisational structures (including corporate governance) 12. Demonstrate action (objectives and programs) 13. Describe management system and integration into business processes 14. Describe management of risks and opportunities (contingency planning, compliance management, etc.)
IV. Address the sustainable Development Agenda	15. Describe innovation for more sustainability (design, operations, markets) 16. Demonstrate a sustainable value/supply chain 17. Describe financial implications (costs, savings, investments, liabilities, wins) 18. Demonstrate employee involvement/ relationship (knowledge management) 19. Include interaction and partnerships with civil society (communities, consumer groups, NGOs, authorities 20. Describe working on framework conditions and public policies for sustainability (local and global developments)
V. Quantify Performance	21. Use effective and meaningful metrics and indicators (absolute figures and ratios) 22. Specify data quality and accuracy 23. Show trends (performance over time) 24. Provide targets (level of achievement and envisioned future performance) 25. Include interpretation and benchmarks (context and comparability)
VI. Achieve Credibility	26. Describe engagement with stakeholders (dialogues and outcomes thereof) 27. Optimise balance of issues (relevant aspects, usefulness) 28. Demonstrate connection to reality (stories, people) 29. Enable accessibility and interactivity for contacts, feedback and for further information 30. Use assurance services (verification)

6.8.5 Novo Nordisk Triple Bottom Line (2001)

Novo Nordisk, a pharmaceutical company (providing diabetes treatment solutions) established 80 years ago, is a global leading organisation in the field of corporate social responsibility. Lars Rebien Sorensen (2002), CEO of Nova Nordisk made the following comment:

> It has been said, and widely so, that it is a company's values that underpin its approach to and understanding of sustainable development. In case of Novo Nordisk, we have been pursuing a consistent approach to implementing triple bottom line for more than a decade. We are attempting to define a model for CSR that makes sense to our shareholders and employees, and to all those who benefit from our products. We focus on areas where there is a need for our abilities, competencies, and commercial interests. Evidently, there is self-interest in this approach. To me, that is what makes it sustainable.

At Novo Nordisk, the following three significant themes will form the basis of their CSR strategy:

- Globalisation, sustainable development and corporate governance
- Industry's changing role and widening responsibilities
- Stakeholder demands for transparency, dialogue and accountability.

The following triple bottom line indicators / reporting framework (Table 6.6) forms the set of top level reporting guidelines for Novo Nordisk. These indicators are linked to Novo Nordisk's Balanced Business Scorecard that also focuses on sustainable development.

<u>Table 6.6: Novo Nordisk "Triple Bottom Line" Indicators</u> (Source: Novo Nordisk Social Report 2001)

	Indicator	Impact
Living our values	% of employees who agree or strongly agree that social and environmental issues are important for the future of the company	Implementation of considerations regarding sustainable development in all decisions
	% of employees who feel that management demonstrates in words and action that they live up to the Novo Nordisk values	Implementation of considerations regarding sustainable development in all decisions
	% of fulfilment of action points planned for 2001 arising from facilitations of the company Charter and core values	Implementation of considerations regarding sustainable development in all decisions
	Frequency of occupational injuries	Increased quality of life for employees, improved work flow and productivity, and saved sick leave for company
Our employees	% of employees who agree or strongly agree that their work gives them an opportunity to use and develop their competencies / skills	Increased competence level for employees and increased competency capital in company
	% of employees who agree or strongly agree that men and women have equal opportunities at NN (divided F/M)	Increased gender diversity in the workplace
	Number of animal tests removed from external and internal specifications	Animal welfare
	Housing conditions for experimental animals considering the needs of the animals	Animal welfare
Eco-efficiency and compliance	Water EPI	Water use efficiency
	Energy EPI	Energy use efficiency
	Compliance	Compliance with regulatory limits
	ISO 140001	Fewer breaches of regulatory limits and decreased use of raw materials, water and energy
Economic contribution	Operating profit margin	Contribution to company efficiency, growth and investors' economic capacity
	Growth in operating profit (2000 to 2001)	Contribution to company growth and investors' economic capacity
	Total taxes as % of turnover (corporation tax in profit and loss/net turnover)	Contribution to national economic capacity
	Return on invested capital (BOIC)	Efficiency of invested capital, contribution to asset base, and investors' economic capacity
	Cash to earnings (three-year average)	Contribution to the company's degree of freedom in terms of available cash funds (resources)

6.8.6 Business in the community

Business in the community (BITC) in the UK, in collaboration with Tomorrow's Company, The Prince of Wales International Business Leaders Forum and Accountability (UK) developed a number of frameworks, aiming at integrating social responsibility into day-to-day policies and procedures. Two of these frameworks were chosen, i.e. framework for community engagement and general guiding principles framework to report upon: Both these frameworks have the same process flow, clearly outlining the internal steps needed to integrate CSR into the core business processes of an organisation. The process flow is as follows:

Step 1: Gain ownership and commitment
Step 2: Identify current policies
Step 3: Develop revised policies and new strategy
Step 4: Establish action plan and set targets and milestones
Step 5: Monitor, measure, review
Step 6: Report and communicate
Step 7: Review progress with stakeholders
Step 8: Refine policies and refine strategy

In the case of the community engagement process, the following three levels of involvement are relevant. Steps 1 to 8 need to be followed for each of the following three levels :

Level 1: Company needs to give serious consideration to the rationale behind their involvement in the community.

Level 2: Develop overall strategy for activities in the community.

Level 3: Take account of perception measures and external assessment.

For the general guiding principles on corporate social performance, the same steps 1 to 8 are relevant; however, the levels of involvement differ. These levels are:

Level 1: Management team to give serious consideration to ethical issues and business responsibility and define the purpose and value of the company.

Level 2: Ensure that the new purpose and values are embedded in strategic planning and process, and are fully reflected in the company's processes and procedures.

Level 3: Use professional benchmarking tools, including external audits to measure progress and to build credibility and reputation.

Business in the Community (UK) approach focuses on the management systems rather than on the reporting framework. It does however, enable a reporting organisation to integrate CSR into business processes which are also regarded as fundamental drivers of corporate citizenship, large-scale corporate social transformation and triple bottom line reporting. Already there are debates on whether reporting on management systems and procedures should not be regarded as important as reporting on the actual indicators, e.g. human rights, health and safety, eco-efficiency etc. Some experts already strongly argue that reporting on management systems should be step one, the reason being that through this, the business case for reporting is endorsed, and lifetime is given to sustainability reporting.

6.8.7 The Index of Sustainable Economic Welfare (ISEW)

The ISEW was developed in the USA by a group led by Herman Daly, a former World Bank Economist, and the index provides a range of indicators. The ISEW primarily focuses on the wellbeing of the individual. The framework mirrors this approach (ISEW 2001) and proposes the following arguments for the Index:

- ISEW takes into account the increasing proportion of income required to mitigate environmental and social costs.
- ISEW takes into account things which individuals cannot buy, such as poor air quality, loss of wildlife amenities and space and the depletion of natural resources.
- ISEW provides a longer term perspective than GDP, offsets expenditure caused by degradation in the environment, reflects disparities in wealth and reflects man-made capital.
- ISEW attempts to indicate aspects of life that affect economic well-being and business success, such as emotional stress, ill-health and the erosion of trust.
- ISEW measures crime rates, youth delinquency and the state of family life.

There seems to be a severe decline in the quality of life for UK inhabitants (New Economic Foundation, 1998). One can assume that with the increase of poverty and HIV/AIDS statistics, specifically in developing economies that the quality of life of people living in these countries is also on the decline. This could probably lead to increasing focus on indicators such as those developed by ISEW. This also adds a dimension to social reporting which in the case of staff motivation and employee wellbeing have particular relevance and importance.

6.8.8 KPMG criteria for stakeholder engagement reporting

In the Netherlands KPMG is offering a methodology or framework for assessing a company's reputation with key groups. The criteria or indicators on which they base their reporting are as follows:

- Unity: is conduct consistent throughout the company?
- Openness: does the organisation provide relevant data to the stakeholders and is it open to criticism?
- Honesty: does the company literature provide a true picture of the organisation?
- Liberty: are stakeholders under pressure by the company to make decisions?
- Equality: does the company treat major stakeholder groups equally?
- Reciprocity: does the organisation employ the same standards internally as it does for its stakeholders?
- Solidarity: does the company address the social needs of the community in which it operates?
- Sustainability: does the company compensate the stakeholders it harms?

From the above it is clear that KPMG (The Netherlands), places great emphasis on stakeholder engagement and suggests that reporting organisations should particularly emphasise their engagement with stakeholders against the mentioned criteria.

6.8.9 BP (Australia) framework for corporate citizenship

BP (Australia) decided to adopt twelve generic principles of corporate citizenship (Andriof & Macintosh 2001). These twelve areas will also act as the framework for reporting on their level of corporate citizenship as an organisation:

- Making a difference beyond philanthropy
- Employee and stakeholder empowerment
- Transparency
- Accountability - auditing and verification of social, environmental and economical impact
- Sharing responsibility without losing profitability
- Inclusivity
- Sustainable capitalism
- The triple bottom line approach as the major driving force behind the core business operations
- Long-term dialogue, exchange and partnership
- Communication

- Engagement
- Dialogue

These twelve principles have subsequently been synthesised in a charter that will pave the way for policy integration and eventually map the transformation from corporate philanthropy to corporate citizenship in BP.

In summary, section 6.8.1. to 6.8.8 offered an overview on some frameworks in addition to the Accountability Standards and GRI, also mentioned in Chapter 6. As the area of social reporting develops, new frameworks emerge from all sectors of society. What remains clear therefore is that the agenda is being driven at the highest levels, globally and locally. The following factors have a strong bearing on this drive (Elkington 2002):

- Growing concerns about globalisation, human rights and climate change.
- Pressures on companies by G8, International Monetary Fund and World Trade Organisation.
- Growing professionalisation of corporate citizenship, and therefore accounting and reporting.
- Growing interest of financial markets (e.g. JSE/SRI Index and FTSE & GOOD).
- Increased pressure on competitive advantage, fuelled by strong social, environmental and economical conscience.

The main aim of this study, i.e. developing South African indicators for corporate social performance, will therefore offer criteria which could also act as a framework for social reporting within the South African context and according to the 15 experts, participating in the research.

6.9 DIFFERENCES IN REPORTING STYLES

The field and profession of social accounting and reporting are relatively new. There still seems to be confusion amongst a number of reporting organisations on the objectives and methodology of reporting. The emergence of GRI, accountability, JSE/SRI and other reporting guidelines on the one hand offer some solutions; however misconceptions and incorrect interpretations still occur. The African Institute of Corporate Citizenship (AICC) therefore developed a matrix in an attempt to demystify the reporting phenomenon (Table 6.9).

Table 6.7: "Reporting vs reporting" (Source: AICC 2002: 3)

Status / PR Report	**Sustainability Report**
Aims to portray current status	Driven by strategy
PR/Promotional spin	Integrity through transparency and engagement
Lacking business context/central theme	A working document setting targets and calling for feedback
Lacking in objectivity and honesty	A means of driving change and culture
No verification	Verified output
Limited use	Risk management - improving systems and efficiencies

Table 6.9 suggests that the future of reporting will focus on sustainable reporting, with limited PR and status value associated with it. According to Accountability, Institute of Social and Ethical Accounting, there are five types of reporters (2002):

- The Traunts
  Large and small, which refuse to report
- The Cosmetics
  Who prefer a glossy, superficial report
- The Nerds
  Who have an almost insatiable appetite for data, but risk missing the "big picture"
- The Virtuosos
  Who stretch every sinew and win most of the reports
- The Supersonics
  Who understand complexity so well that their reporting, systems and performance break the transparency barriers.

Furthermore, when considering the above, one realises that the field of social accounting and reporting still needs considerable debate and research. It could however, be argued that through large-scale adoption of the reporting guidelines and accountability standards by the private sector, that the levels of understanding and application will increase, leading to generally accepted practices.

Sustainability (UK), United Nations Environmental Programme and the New Economics Foundations (1998) jointly came up with the following ten recommendations to report makers:

- Be open and honest: "Avoid collective self-delusion."
- Include a very stringent review of legal compliance and problem areas.
- Show performance as against targets.
- Focus on significant issues for your sector and company, contextualise information and flag up gaps.
- Adopt standardised reporting formats; ensuring information is comparable from year to year.
- Distinguish between local and global impacts.
- Normalise information and use common ratios and sector benchmarks.
- Go for independent, third party verification.
- Tailor reports according to different stakeholders, with clear and user-friendly signposting and remember that paper can be a very poor medium of communication.
- Discuss stakeholder relationships and start informed dialogue on sustainability.

6.10 INTEGRATING AUDITS

It is important to refer to the possible integration of auditing methodologies and practices. For example, despite the widespread agreement that social and environmental issues are inextricably linked, auditing of these issues continues to take place separately, for most of the time (Leipziger 2000). Leipziger (2000) argues that combined audits save both time and money. Rather than preparing for several audits, a company concentrates its efforts on one audit cycle. Furthermore integrated audits will eventually lead to dovetailed or integrated management systems, thereby streamlining those processes. It will be much easier to implement additional management systems once there is one working system in place. It also can improve worker co-operation through discussions with workers in the field of auditing and reporting, thus involving the workers in the overall process. The greatest barrier however, to an integrated auditing process remains lack of training and skills amongst auditors, internally and externally.

Regarding the possibility of integration according to Leipziger (2000), there are inherent synergies between social and environmental auditing. A clear example is the synergy between ISO 14000 (environmental) and SA8000 in the specific areas of health and safety. Auditors look closely at those environmental issues, which might impact directly or indirectly on the health and wellbeing of the workers and communities in general. Such areas would typically involve the use of toxic chemicals which are used for example in the manufacture of footwear and also in agricultural fields.

To sum up, during a discussion with Mr Paul Kruger (2002) chairman of SASOL (participant in this study), he referred to the effort SASOL is putting into environmental and social management involving their gas pipeline stretching from Nigeria to South Africa. SASOL is investing R60 million on programmes managing the potential environmental impact of the pipeline. Their strategy is to involve all stakeholders along the pipeline in developing solutions to minimize its potential negative impact consequently giving ownership to communities in the process. SASOL is clearly integrating social and environmental impact and this is reflected in their latest social report (2001).

6.11 CONCLUSION

In Chapter 6 an overview of the critical elements of measurement in the field of corporate citizenship was presented. The previous chapters attempted to contextualise social development in the business landscape (Chapters 2 and 3). Chapter 4 specifically reported on the broad field of corporate citizenship, attempting to decode and demystify confusion relating to the terminology within the field of corporate citizenship. Chapter 5 had a narrower look at stakeholder engagement and partnership building as a critical element in the broad field of corporate citizenship. Chapter 5 also reported on the importance of stakeholder engagement as the primary driving force behind high level corporate citizenship and specifically reported on the interdependency between an organisation and its stakeholders.

It is however, generally accepted within the private sector that "if something cannot be measured it cannot be managed". Consequently it is difficult to realise the value of corporate citizenship. The aim of this study furthermore makes it imperative to offer an overview of measuring and reporting on social and environmental impact. Chapter 6 therefore introduced the concept of measuring social, environmental and economic impact – "The Triple Bottom Line". Chapter 6 also defined the social measuring landscape i.e. accountability standards as well as globally accepted reporting guidelines. The business case for social reporting as well as challenges facing the auditing and reporting fields were reported on. Finally, a strong case was posed in favour of integrating audits into mainstream business systems and processes to ensure that social and environmental impact measurement becomes part of the core business, thus confirming the so-called "licence to operate".

Measuring and reporting therefore are fundamental driving principles in corporate social performance. Meyer (1999), Dean of Columbia Business School, made the following comment:

> Tomorrow"s business leaders must grasp more than convention; they must also be prepared to develop and steer business of all sizes and types through a global

economy that demands consideration not only of profit and shareholder value, but also of broader human interests.

There is however, still great uncertainty about measurement in general. With the recent introduction of measuring guidelines and indicators as well as reporting guidelines, it can be expected that correct practice would fall short of the ideal. Bowen (2002) offers the following reasons:

- It often takes the public report as its starting point rather than the underpinning core accountability mechanisms.
- It is perceived to be weak in providing comfort over actual performance on the ground.
- It tends to focus heavily on accuracy of information rather than providing insight into the quality and "meaning" of the accountability process.

Bowen (2002) strongly argues that assurance needs to be a dynamic process. The following elements will ensure legitimacy in the process (Bowen 2002):

- Assesses the quality of stakeholder dialogue as a key element of risk management and identification of current and future issues.
- Considers whether culture and values facilitate increased accountability.
- Focuses selectively on key indicators where credibility needs to be enhanced.
- Considers performance outcomes on the ground.
- Is stakeholder inclusive, encouraging alliances of assurance providers

Accountability: Institute of Social and Ethical Accounting in a document AA1000 Conversations - Lessons from early years (1999-2001), reported on three dimensions of sustainable social accountability: learning, integration and stakeholder's' engagement. The headline findings are:

- Learning is pivotal to a sustained organisational commitment to social and overall accountability.
- Integrating accountability principles throughout organisations ensures that they become part of everyday business.
- Stakeholder engagement is central to social accountability.
- Accounting and reporting practices in general need to address the needs of its users, e.g. business, government and civil society.

The arguments above clearly show that the practice of social accounting and reporting are faced with a number of challenges and will require continuous development. The practice of social accounting is currently in a dynamic phase of exponential growth and awareness globally and this emphasises the responsibility being placed on the shoulders of the pioneers in this field. Simon Zadek, CEO of Accountability, who is globally regarded as one of these pioneers, made the following comment during the Annual Business for Social Responsibility conference in Miami (November 2002) :

> Accountability standards and the practice of accountability will in future only be valuable if:
>
> - There is real impact.
> - There is permanence in the outcomes of measuring and reporting.
> - There is durability in the practice.
> - There is visible change in management practices.

Finally, as reported by Mackenzie (2001):

> I believe there are very substantial opportunities arising from the new CSR Governance agenda. Perhaps the biggest is that the new agenda offers CSR professionals a wonderful chance to convince the board that CSR issues should be placed at the heart of the business. The new developments will stimulate company boards to create a fully integrated decision-making infrastructure for CSR issues. CSR professionals will now be able to convince boards and management of the significant risks and opportunities for the company. Boards will now make sure that the operations director will not get his/her bonus unless he/she meets the objectives set by the CSR policy.

6.12 <u>APPLYING THEORY TO PRACTICE: A BRIDGING FRAMEWORK</u>

In Chapters 2 to 6 a literature review was presented in order to identify key theoretical constructs relating to the topic of corporate social performance and corporate citizenship. The relevance of this review however can only be confirmed if put into practice. The final section of Chapter 6 will therefore present a framework that will demonstrate the relevance of the theory through a process of contextualisation with specific emphasis on SA realities. This framework will also reveal the need for clarifying the theoretical constructs through the actual research design in order to reach the stated objective of this study. The framework will finally integrate the various theories and frameworks presented in Chapters 2 to 6 that lead to identifying the critical elements relating to corporate citizenship. The framework will therefore offer a birds-eye view of the subject.

The framework as presented in Figure 6.4 basically describes three broad areas namely:

- Driving themes (theory) – Phase 1
- Contextualisation (SA reality filter) – Phase 2
- Driving themes (application) – Phase 3

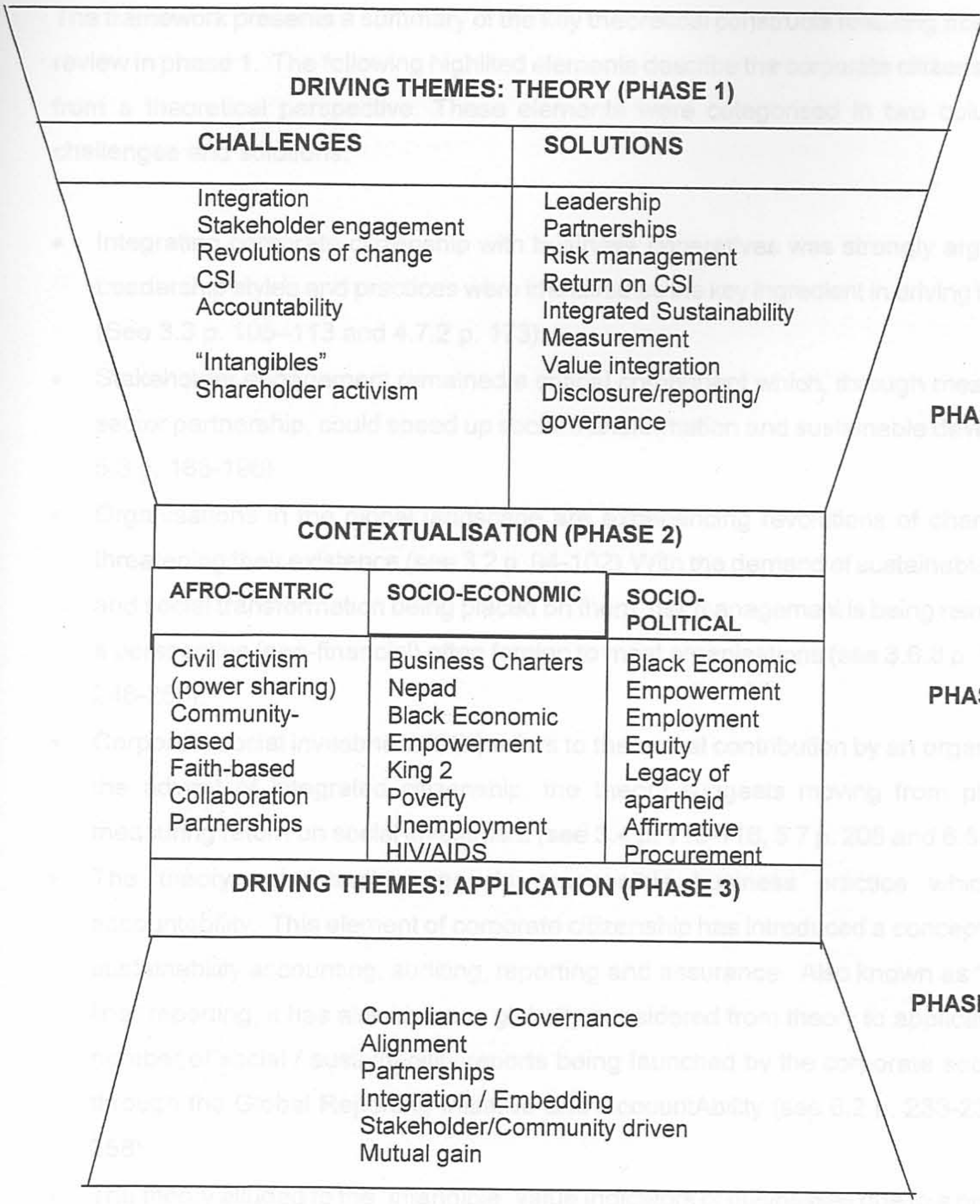


Figure 6.4: Theoretical application

The framework presents a summary of the key theoretical constructs resulting from the literature review in phase 1. The following highlited elements describe the corporate citizenship landscape from a theoretical perspective. These elements were categorised in two columns, namely challenges and solutions.

- Integrating corporate citizenship with business imperatives was strongly argued in theory. Leadership styles and practices were identified as the key ingredient in driving this integration (See 3.3 p. 105–113 and 4.7.2 p. 173).
- Stakeholder engagement remained a critical component which, through meaningful cross-sector partnership, could speed up social transformation and sustainable development (see 5.3 p. 188-196).
- Organisations in the global landscape are experiencing revolutions of change which are threatening their existence (see 3.2 p. 94-102).With the demand of sustainable development and social transformation being placed on them, risk management is being reintroduced from a perspective (non-financial) often foreign to most organisations (see 3.6.8 p. 131 and 6.5 p. 248-250).
- Corporate social investment (CSI) refers to the actual contribution by an organisation. With the advent of integrated citizenship, the theory suggests moving from philanthropy to measuring return on social investment (see 3.4 p. 113-116, 5.7 p. 208 and 6.6.4 p. 258-259)
- The theory consistently suggests responsible business practice which relates to accountability. This element of corporate citizenship has introduced a concept for integrated sustainability accounting, auditing, reporting and assurance. Also known as "triple-bottom-line" reporting, it has already been globally considered from theory to application through a number of social / sustainability reports being launched by the corporate sector as well as through the Global Reporting Initiative and AccountAbility (see 6.2 p. 233-235, 6.6 p.254-258).
- The theory alluded to the "intangible" value indicators of businesses due to a premium placed on their actions by society at large. Elements such as trust, integrity, reputation and governance are key indicators of good corporate citizenship (see 2.4.3 p. 74, 2.4.5 p. 78, 3.6.7 p. 128, 4.4 p.158 and 5.3.3 p.193). Organisations therefore are increasingly following a strategy whereby these value indicators ('intangibles') are not only viewed as social elements in strengthening the brand, but also integrated in its value proposition and organisational culture, as well as measured as non-financial indicators of success (see 3.4 p. 113-118, 3.6.1 p. 122 and 3.6.7 p. 128-131.)
- The theory specifically refers to an increase in global stakeholder activism. The "CNN age" referred to in the literature demonstrates the level of exposure most organisations are facing. Ordinary citizens are exercising their rights more aggressively and civil action and regulation are a reality in the business landscape (see 3.2.4 p. 102, 3.6.4 p. 125 and 4.5 p. 161-166).

The implication is an increase in disclosing and governance practices being introduced globally. The GRI, WSSD and a number of social standards and indexes (according to the literature review) are proof of a regulatory framework that already forms a pivotal part of governance and business practice. (See 2.2.2 p. 46-54, 2.3 p. 59-69, 3.6.9 p. 132-134).

In phase 2 of Figure 6.4 reference is made to the need for contextualising the theoretical constructs/drivers as described in block 1 of Figure 6.4. The theory seems limited in its application unless sufficient contextualisation is made. Phase 2 therefore describes three "driving forces" through which the theory needs to be viewed in order to ensure reality within the given SA landscape. Although these "driving forces" are not theoretically grounded, reference is made in the literature review (specific reference in Chapter 2) to some of these drivers. The drivers are categorised in three areas namely "Afro-centric", socio-economic and socio-political. These areas are according to the author the most critical factors epitomising the current SA landscape.

- <u>"Afro-centric"</u>

The theory (see 1.3.3 p 12-13) specifically refers to the uniqueness of the SA landscape through the community concept of business. This concept confirms elements such as transformational leadership, partnerships, transparency and disclosure. It also emphasises the role of civil society in business practice which is becoming a force that SA businesses post-1994 are finding challenging to deal with. The mere fact that the SA business landscape is characterised by sophisticated business practice (First World) within a Third World context, indicates the dichotomy and conflict when Afro-centric principles are introduced. Although the voice of the ordinary citizen in SA is still not acknowledged by most businesses, civil action and organised groupings for example faith-based and community-based organizations as well as organised labour are increasingly forcing the business sector to recognise the "voice of the individual" through constructive engagement and partnerships.

- <u>Socio-economic</u>

The socio-economic history of SA indicates a strong sense of exclusion, economic disparity and social separation. For decades SA was known for its sophisticated businesses and capitalism on the one hand and severe social deprivation and poverty on the other. The mainstream economy was geared to benefit the minority and disadvantage the majority. Since democracy in 1994, the opposite ideology namely inclusion, economic and social equality as well as social cohesion through economic mainstreaming was promulgated. Institutional drivers such as the New Partnership for Africa's Development (Nepad), Black Economic Empowerment, Employment Equity and Affirmative Procurement are examples of socio-economic mainstreaming (see 1.37 p. 19-22 and 2.2.1 p. 40-46). Apart from the abovementioned economic drivers, regulatory practices have been introduced to fast track socio economic transformation for example The King 2 Report on Corporate Governance (see 2.2.2.1 p. 47-50) as well as the Johannesburg Securities Exchange: Socially Responsible Index (see 2.2.2.2 p. 50-51). HIV/AIDS can finally be regarded as the biggest single threat to socio-economic transformation in SA. It was therefore debated in the theory as a key determinant in defining corporate social performance in SA (see 2.2.3 p. 55-59). The SA government has also engaged with the business sector in forming partnerships around social transformation. The SA government's main strategy is to align CSR practices and initiatives with the national growth and development agenda to ensure integration and maximum impact (see 2.2.3 p 55-59).

- Socio-political

Since the advent of democracy in 1994 the SA landscape has been characterised by a strong political imperative aiming to correct the "mistakes of the past regime" and create a better life for all citizens of SA. The legacy of apartheid still forms the core of socio-political transformation in SA. Initiatives such as Black Economic Empowerment and Affirmative Procurement are regarded as politically motivated interventions in changing the face of the SA business sector. With the advent of the second democratic election to take place in 2004, the political activities and the impact on the SA business sector will undoubtedly intensify and this will again have a major impact on corporate social performance.

Considering the above arguments in the current SA context, it becomes imperative to recognise the impact of these drivers on the practice of corporate citizenship. In viewing the key theoretical drivers/elements (phase 1) as suggested by the author, one realises that in the application of these theoretical constructs within a SA context (phase 2), it demands a certain degree of clarification, and therefore indicates the need for this study. The identified indicators as per the research results (see Chapter 9) will be contextualised within the theoretical framework (phase 1). The following theoretical themes (phase 3) do however represent preliminary thoughts (according to the author) on emerging elements of corporate social performance. These driving theories "in application" need to be validated and will be reported on in Chapter 9, section 9.6 through the actual research.

The following theoretical indicators have relevance:

- Compliance / governance

The SA Business landscape which is characterised by a surge of regulatory practices (see 2.2.2 p. 46-4) as well as Business Charters, for example the Mining Charter, will demand compliance from its players. Although most regulatory practices are still voluntary, the socio-economic and political imperatives will subtly direct behaviour in a more organised fashion that will make non-compliance a definite business risk. Social performance therefore will depend on levels of compliance and governance.

- Integration / embedding

The SA landscape demands full integration of CSR in business strategy and practice. It is therefore critical to introduce management practices, systems and procedures to embed corporate citizenship in mainstream business. The ability therefore of an organisation to make CSR a part of the key performance areas of all staff members will for example ensure social performance. SA companies can no longer "outsource their conscience". A surge of sustainability / triple bottom-line reports in SA show evidence of this movement towards integration.

- Stakeholder / community-driven

The principle of "business as a community" has special relevance in the SA context. Civil activism, socio-economic and political challenges as well as Afro-centric imperatives where a strong philosophy of power sharing is supported, forces the business sector to place a high premium on community involvement. It is increasingly acknowledged that the community at large is viewed as the primary beneficiary of social transformation. It is therefore imperative to obtain the views of this section (civil society) in determining levels of social performance. An argument such as "let the community decide whether an organisation is a good corporate citizen and not only government and the forma sector alone"has specific relevance.

- Mutual gain

The future of SA relies on the ability of all role players to collaborate in addressing the challenges of fighting poverty, HIV/AIDS and job creation to name but a few. If all players in society operate from a basis of mutual gain and power sharing, the probability of building SA into a prosperous country is arguably high. Social performance and corporate citizenship is therefore about mutual gain.

Section 6.12 of this chapter offered "bridging constructs" in applying the theory as discussed in Chapters 2 to 6 in practice. An attempt was also made to integrate the theory in order to conceptually outline the elements of corporate social performance that need to be covered by the actual findings of the research (Chapters 8 to 10). The section finally presented some arguments on the theoretical implications which will be further described in section 7.2.

The author decided to present a general overview of the changing world of business in Chapter 7 in an attempt to deepen the theoretical implications from a practical perspective. Chapter 7 will therefore offer some theoretical perspectives from a European context as well as some personal viewpoints on the changing face of business particularly in SA. Section 7.2 will however highlight a summary of some theoretical constructs as analysed in the literature review (Chapters 2 to 6). This section will confirm the need to re-define the face of business from a corporate citizenship perspective.