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Developing a Framework for Integrated Triple Bottom Line Reporting

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The practice of companies reporting more than just their economic performance has increased markedly in recent years. Today, besides an annual report, many companies regularly publish other reports, which outline their performance with respect to the natural environment and society. This form of reporting goes by the name of 'Sustainability Reporting'. This paper presents the findings of a research project which performed a quantitative and qualitative analysis of corporate sustainability reporting in Switzerland. The highlights of the paper are the methodological approach adopted and the suggestions made to improve the effectiveness of Sustainability Reporting.

Introduction

The annual report is sometimes referred to as a company's 'business card.' This is intended to indicate that it provides readers with a more or less quick and comprehensive picture of the publishing organisation. In a society that is inundated and saturated with information, this initial impression is gaining in importance. Yet this economic 'pearl of wisdom' can also be interpreted differently, since the

business card ultimately says very little about the person behind it. Transposed to the annual report, this would mean it can give readers only very superficial information on the company concerned. Unfortunately, there is some truth in this. Many companies continue to present annual reports that use interchangeable terminology (and an often equally interchangeable graphic design) to paint an entirely positive picture of the company. Not infrequently, the information value tends to hover around zero, leaving aside for a moment the detailed figures that outline the progress of the business for shareholders and financial institutions. This can give the impression that many companies have failed to notice a development that has been taking clearer shape for some ten years now. Today, companies need to justify their activities to a critical public and should no longer confine themselves to communicating only the economic dimension of their operations. On the contrary, a range of stakeholder groups are now demanding information and statements on social and environmental issues, too.

The following text will start by outlining the developments that have led to sustainability reports gradually becoming established in corporate reporting practice. In the process, it will name the most important reasons for this change in reporting practice. The second part will examine the question of what constitutes 'good' sustainability reporting. In this context, reference will also be made to the many guidelines and methods of evaluating sustainability reporting that now exist. The analysis and critique of these guidelines and methods conducted during the first benchmark survey of corporate sustainability reporting in Switzerland led to the development of an alternative assessment system, which will subsequently be described. Finally, the article will introduce the new integrated reporting model gleaned from the experiences made during the aforementioned survey.

From the Environmental to the Sustainability Report

A number of companies have recognised the signs of the times implied in the introduction and now issue additional reports besides a classical annual report. They are also beginning to devote more attention to environmental and social issues in their reporting. As a designation for this new integrated form of reporting economic, environmental and social performance, the term 'sustainability reporting'—a linguistic borrowing from the term 'sustainability'—has become established. A report can be considered a sustainability report in the strictest sense of the term if it is public and tells the reader how the company is meeting

the “four corporate sustainability challenges” outlined by Schaltegger, Burritt and Petersen (2003, 338). It must, in other words, contain qualitative and quantitative information on the extent to which the company has managed to improve its economic, environmental and social effectiveness and efficiency in the reporting period and integrate these aspects in a sustainability management system (Daub *et al.*, 2003, 23). Accordingly, the definition of the World Business Council for Sustainable Development (WBCSD) reads: “We define sustainable development reports as public reports by companies to provide internal and external stakeholders with a picture of the corporate position and activities on economic, environmental and social dimensions” (WBCSD 2002, 7). The definition provided by the KPMG in its International Survey of Corporate Sustainability Reporting places even more emphasis on the balanced reporting aspect. It defines sustainability reports as “reports that include quantitative and qualitative information on their financial/economic, social/ethical and environmental performance in a balanced way” (KPMG/WIMM 2002, 7). Though a comparatively new phenomenon that first appeared at the end of the 1990s, a number of studies have shown that there has been an upsurge in this form of reporting, a trend that looks set to continue in the future (cf. Morhardt 2002, IÖW/imug 2002).

Historically, sustainability reports in the strictest sense of the term were preceded by three different types of report.

Annual Reports

Although the *annual report* is rarely mentioned as a ‘forerunner’ of the sustainability report, current developments towards integrated reporting, which will be reflected upon in detail later, speak for this thesis. Since the mid-1990s, there has been a trend for annual reports to include more information on ethical, social and environmental aspects of the company’s activities (usually under key terms such as ‘corporate citizenship’ or ‘corporate social responsibility’). This applies in particular to companies that—for whatever reasons—elect not to publish a separate sustainability report.

Environmental Reports

The first *environmental reports* were published at the end of the 1980s and quickly became widespread, especially among multinational companies. In 1998, for example,

35% of the 250 biggest *Fortune* Global 500 companies were already producing environmental reports; a further 32% published brochures on environmental issues or incorporated the subject in their annual reports (Kolk/Walhain/van de Wateringen 2001). The systematic integration of ‘social’ issues, as has always been the case with the environmental report’s closest relative, the health and safety report, is gradually seeing the environmental report move in the direction of the sustainability report.

Social Reports

A third type of report is the *social report*, in which companies address the social aspects of their activity. They have been published relatively infrequently, however, and can be seen as a response to the demands made during the 1970s on companies to introduce ‘social accounting’ or produce a ‘social balance sheet’. In the German-speaking countries, this culminated in a catalogue of minimum recommendations published by the German Trades Union Federation (DGB) on July 12, 1979. This contained a total of ten points (Wysocki 1981, 169) and bore a strong resemblance to the *bilan social* that was made law in France in 1977 (Vogelpoth 1980). No sooner had the issue been placed on the political agenda than it disappeared again (Daub 2004, 160). Its forerunner role for sustainability reports becomes particularly apparent when we look at companies that have traditionally attached high importance to the social aspects of their activities.

Since many companies are still clinging to ‘older’ forms of reporting, it comes as no surprise that many different report types currently exist. All have something to do with a company’s integration in its social and ecological environment and many, at least in their basic approach, have something to do with ‘sustainability’. They can, therefore, be considered sustainability reports in the broader sense (Daub *et al.*, 2003, 25). According to an international survey (KPMG/WIMM 2002, 5 ff.) conducted by the KPMG, which reviewed the reports issued by the *Fortune* Global top 250 companies (GFT250) and the top 100 companies in 19 countries (Top 100), four main report types exist (the percentage figures for each type are given in brackets):

- Environmental reports [Health, Safety and Environment]—(GFT250: 73%, Top 100: 65%).

- Sustainability reports—(GFT250: 14%, Top 100: 12%).
- Combined environmental and social reports—(GFT250: 10%, Top 100: 11%).
- Social reports—(GFT250: 3%, Top 100: 12%).

The main reason why significantly more environmental reports are being produced than sustainability reports is that the European Eco-Management and Audit Scheme (EMAS II), which is based on the 1995 EMAS Directive (EC 761/2001 and is the leading regulation for environment management systems along with the ISO 14001 series of standards, requires participating companies to issue an environmental statement. This is understood to be a document with set methodical and content requirements that is published by companies to provide stakeholders and the public with regular information on the environmental impact of their activities. It can, therefore, be considered an initial mechanism for the standardisation of environmental reports and one which has a substantial influence on the basic structure of other environmental reports (cf. BMU/BDI 2002, 29).

A further reason for the relatively widespread distribution of environmental reports in comparison with sustainability reports is that the environmental problems associated with quantitative growth were made public at an early stage. Accordingly, the first environment protection organisations emerged from the ecological movement during the 1970s and soon drew attention to themselves with a number of spectacular public campaigns. The disputes between environmental organisations and companies can be said to have reached a peak with the high-profile 'David and Goliath battle' between Greenpeace and Shell. (Daub 2003, 133 f.) As a result, the environment issue engendered much debate in the business world. One factor in this process is that environment protection has become an independent sector of substantial economic importance in many industrial nations, which has had a knock-on effect on employment. It has also been demonstrated that corporate environmental protection can bring about a significant reduction in costs.

Reasons for Sustainability Reporting

As touched upon in the introduction, sustainability reporting can be considered a direct response to changes in society that have led to the increased monitoring and policing of companies by a critical public that is demanding more ethical

behaviour. In the academic discourse, a host of terms were coined in this connection, of which ‘corporate citizenship’, ‘corporate social responsibility’ and ‘corporate responsiveness’ are probably the best known (McGuire 1963; Sethi 1975; Ackerman and Bauer 1976; WBCSD 1999). In their various connotations these terms describe the wide-ranging responsibility of a company towards its stakeholders and society as a whole. The latter of the three aforementioned viewpoints goes the furthest in that it resolutely calls upon companies to consider “what should be their long-run role in a dynamic social system” (Sethi 1975, 63).

This aspiration is derived from business and ethical considerations. These hold that a company does not create economic value simply as an end in itself, but rather gives the value-added back to society (by paying wages and taxes, for example). Through its commercial operations, it also generates negative external effects. The bigger a company becomes, therefore, the more positive and negative effects it generates; the more it manifests itself in the public eye, the more it becomes obliged to justify its presence in society. In an attempt to describe this interrelationship, Peter Ulrich, a professor of business ethics in St Gallen, contributed the term ‘quasi-public institution’ to the academic discourse in 1977. According to Ulrich a company should be seen “as a multifunctional and thus pluralistically legitimised value-adding entity that fulfils socioeconomic functions on behalf of various stakeholder groups [...]” (Ulrich/Fluri 1995, 60).

This consideration also forms the starting point for the publishing of sustainability reports, be it in the strictest or broadest sense of the term. These are to be seen as a response by companies to increasing calls by various groups within society to legitimise their actions. This idea of legitimation is also reflected in the principal reasons for the increased publishing activity of companies, which can by all means vary. Morhardt, Baird and Freeman (2002, 215 f.) name the following principal reasons:

- The attempt to meet regulatory requirements and reduce the potential cost of future regulations by adopting a proactive approach.
- The effort to bring operations into line with environmental codes, especially when under the threat of sanction for non-fulfilment.
- The effort to reduce operating costs.

- The attempt to improve stakeholder relations.

Other reasons named are the attempt to improve the public perception of the company's environmental activities and thus maintain and enhance its competitive position, and the recognition that the adoption of an active environment management approach as evidenced by the reports and/or the conscious assumption of social responsibility will serve to reinforce a company's social legitimacy. The WBCSD provides an almost identical rationale in a current publication on "Sustainable Development Reporting" (WBCSD 2002, 7).

On closer examination, the aforementioned rationale can be divided into three main groups, which, in turn, highlight three main challenges that companies need to address (cf. BMU/BDI 2002, 6 ff.; Schaltegger/Dyllick 2002, 30 ff.; Dyllick/Hockerts 2002).

The Environmental Challenge

Concern about the impact of human activity on nature and the global ecosystem has been growing among large sections of the population since the early 1970s. A key date here is 1972 and the presentation of the first Club of Rome report (Meadows 1972). These fears were exacerbated by increased scientific understanding of the global threat posed by environmental damage. Companies carry a particular responsibility in this context, since much of the damage arises as a result of economic activity. A succession of major environmental scandals such as the Exxon Valdez, Brent Spar and Schweizerhalle affairs also drew much public attention (Daub 2003, 109). The pressure on companies is mounting accordingly. On the one hand, this is reflected by an increase in activities by civic groups in opposition to the conduct of individual companies, on the other, by a rapid proliferation of regulatory requirements relating to corporate environmental protection. The aim is to bring about an improvement in eco-efficiency so as to maximise the environmental compatibility of the company's operations (cf. BMU/BDI 2002, 7).

The Social Challenge

The same public pressure also forces companies to address their responsibility to society and, in particular, their stakeholders. Specific expectations can vary strongly from stakeholder group to stakeholder group and range from employee demands

for a good working atmosphere or high fringe benefits to calls by non-governmental organisations (NGOs) for companies to contribute to an improvement in the human rights situation in countries with poor governance. In other words, stakeholders force companies to strive for social legitimacy in order to secure their “licence to operate” (Stratos Inc. 2001, 1; WBCSD 2002, 13). This challenge is occasionally referred to as social efficiency (BMU/BDI 2002, 8), in a play on the term eco-efficiency. It measures the degree to which the negative impacts of a company’s activities on society are reduced and the positive impacts increased.

The Economic Challenge

The most important economic challenge mentioned in the literature is increasing eco-efficiency and social efficiency (e.g. in BMU/BDI 2002, 9). The two terms are used to describe the relationship between an economic (monetary) variable (value added) and an environmental or social variable (environmental or social impact added). This is not sufficient in itself, however, as the growing economic opportunities presented to companies by the change in situation are not taken into account, though they are precisely what encourage companies to concern themselves with the two challenges under consideration above.

In the face of growing competition in increasingly complex and global markets, the task is to exploit new innovation potential. Only by concerning themselves with environmental and social issues are companies able to recognise elements of this potential. It includes, for example, the nurturing of new markets in developing and emerging nations, the development of market potential in the sphere of recycling, and the provision of products and services that satisfy ethical requirements (e.g., goods produced to fair trade guidelines and ethical funds). By issuing reports outlining their efforts in this respect, companies also show existing and potential investors their ability and willingness to think about the long term and thus secure the future success of the business.

Against the background of these three challenges, which exhibit numerous interdependencies, it comes as no surprise that the one-dimensional system of reporting on economic, environmental and social performance is gradually making way for an integrated reporting format.

What Constitutes ‘Good’ Sustainability Reporting?

To map the changes under discussion, the Institute of Sustainable Management (IfSM) at the Aargau University of Applied Sciences in northwest Switzerland launched a research project in 2002 that was designed to perform the first comprehensive, quantitative and qualitative analysis of corporate sustainability reporting in Switzerland (Daub *et al.*, 2003). The study has since been conducted a second time (Daub *et al.*, 2004). After analysing the literature and meeting with academic and business experts, the Swiss research team specified the following framework for the survey:

- Primarily, the survey method was to follow established assessment procedures and sets of criteria from other studies. This was deemed expedient and necessary because they are based on the guidelines issued by the Global Reporting Initiative (GRI), which most companies use as a reference in the development of their reporting schemes (GRI 2002).
- Notwithstanding these efforts to harmonise the various survey systems, the methodology was intended to overcome the weaknesses exhibited by previous procedures and thus make a contribution to the academic discourse on the possibilities and limitations of any appraisal of corporate sustainability reporting.
- Unlike existing studies of corporate sustainability reporting, the Swiss study was designed to reveal the degree of integration in the reporting systems employed by the largest Swiss companies, irrespective of whether they had already produced a ‘genuine’ sustainability report or ‘just’ an annual report, for instance. This is the only way, first, to illustrate the qualitative changes in reporting in a given country and, second, to track the gradual ascendancy of sustainability reporting at small and medium-sized companies.

The first of the two surveys was only the second survey of the reporting practice of a country to be conducted worldwide, and also the most extensive. The first study of this type, relating to sustainability reports issued by Canadian companies, was presented by Stratos Inc., a Canadian consultancy (Stratos 2001). The methods employed in the Swiss survey, as distinct from previous procedures and the problems associated with them, are described in the following subsections. The

results of the studies themselves are not dealt with; they are available as separate publications (Daub *et al.*, 2003 and 2004).

Guidelines and Indicator Systems for Determining Reporting ‘Quality’

As sustainability reporting becomes more widespread, the number of guidelines and indicator systems increases. The aforementioned Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI 2002; 2000), an organisation founded in 1997 by the United Nations Environment Programme (UNEP) and the US non-profit organisation CERES that has been working on the guidelines with companies, associations, non-profit organisations and academics since the end of the 1990s, are considered the ‘classical’ international system for all types of company and organisation. Other guidelines include those published by the German institutes IÖW and imug (IÖW/imug 2001) and the Pacific Sustainability Index developed by the Roberts Environmental Center at Claremont McKenna College in California (Morhardt 2002; Morhardt/Baird/Freeman 2002).

Other sustainability reporting assessment systems that serve as guidelines are those that are more or less based on the GRI Guidelines. One example is the methodology developed by the London-based consultancy SustainAbility, which seeks out and evaluates the best global reporters every two years (SustainAbility 2003; SustainAbility/UNEP 2003).

These catalogues and assessment systems, which apply equally to all types of companies, are being augmented by more and more national guidelines devoted to specific issues, industries or sectors:

- One example of a largely national system is the one developed by Stratos Inc. (Stratos 2001; 2002; 2003), a consultancy that conducts a survey of sustainability reporting in Canada every two years. Whilst the Stratos system is based on the GRI Guidelines (2002), it also takes into account aspects specific to Canada, such as “indigenous peoples/aboriginal relations” (Stratos 2003, 10).
- Issue-specific systems are those dedicated to a single area of sustainability reporting, such as the environment or social responsibility. The Environmental Performance Indicators for the Financial Industry (EPI-Finance 2000) are

one example, the guidelines for environmental statements as set forth in the European Union's EMAS directive another.

- Industry and sector-specific systems are currently under consideration by the GRI, which has already produced 'Sector Supplements' for three sectors and has a number of others in development (cf. <http://www.globalreporting.org/guidelines/sectors.asp>). The 'Reporting Requirements for Small Enterprises and Non-profit Organizations' prepared by the US non-profit organisation CERES (CERES 2002) address the circumstances pertinent to smaller enterprises and non-government organisations, which essentially focus their reporting on issues that are different from those pertinent to multinationals. A brochure published by the Association of Chartered Certified Accountants (ACCA) under the title "Environmental, Social and Sustainability Reporting on the Word Wide Web: A Guide to Best Practice" (ACCA 2001) concentrates solely on reporting on the Internet.

Mention can also be made at this juncture of the survey methods used to honour the 'best' annual environmental and/or sustainability reports. Business magazines in many countries conduct expert reviews of the content and design of the annual reports produced by the companies that make up their country's share index (in Switzerland, this is done by Bilanz magazine). Awards for exceptionally well-designed annual reports are another form of evaluation that are frequently encountered. With companies now augmenting their business reporting with additional reports, the number of awards for exceptional environmental, social and sustainability reports is on the increase. The Association of Chartered Certified Accountants (ACCA) in the United Kingdom, for example, has been presenting awards for the best environmental reports since 1991, for the best social reports since 1999 and for the best sustainability reports since 2001 (see www.accaglobal.com). In Switzerland, the Swiss Association for Environmentally Aware Corporate Management (ÖBU) conducts a similar review every two years, adopting a best-practice approach in which a jury awards prizes for the best reports in several categories. In 2003, a total of 30 reports were submitted to the ÖBU, an indication of the limited scope of such awards.

In view of the array of survey systems and guidelines, some of which differ widely, it is no surprise that companies experience difficulty finding the 'right' guidelines for them.

Since a number of years, the publishers of the various guides and evaluation systems have been debating, sometimes quite fiercely, as to which is the best approach. Those who are unhappy with the GRI Guidelines, deeming their stipulations to be too 'soft' and arbitrary would welcome a tightening of the requirements for sustainability reporting. However, this would almost certainly mean that the uniformity of the system may no longer be guaranteed. At present, the GRI Guidelines apply not only to companies but also to other organisations, such as trade unions, societies, associations, NGOs, etc., which, so the argument goes, also operate in an ecological and social environment and are thus exposed to stakeholder expectations. This viewpoint opens up some interesting perspectives, especially as organisations such as these confine themselves even more than companies do to a 'traditional' form of reporting that usually leaves readers searching in vain for information on environmental and social performance.

It remains to be seen which system will ultimately win through. What appears probable is that the GRI system, including its sector supplements, will hold sway and thus become a crucial factor in future sustainability reporting.

Unresolved Methodical Problems of Existing Reporting Guidelines and Survey Methods

The aforementioned magazine rankings and awards make perfect sense, as they promote interest in reporting and contribute to a systematic improvement of reports. However, they have exerted a strong influence on independent assessments of reporting quality. This influence is particularly apparent in two dimensions:

1. Previous national and international surveys of the quality of corporate sustainability reporting have always centred on individual reports rather than the entirety of the reports issued by a company in a given reporting year. They focus on all the dedicated reports published by a company alongside its annual report, rather than just sustainability reports in the strictest sense of the term. Stratos, for example, in its 2003 Canadian benchmark survey, identified a company as a sustainability reporter "if it produced an environmental, environment, health and safety (EH&S), community, social responsibility or sustainability report for the 2002 reporting year, or if its 2002 annual report contained more than five

pages of environmental and/or social information, including performance data” (Stratos 2003, 12). Stratos examined reports published by a total of 338 companies, from which it selected 35 individual reports for further review. The study teams in the two latest SustainAbility/UNEP benchmark surveys, which were first launched in 1994, proceeded in a similar manner (SustainAbility/UNEP 2000, 8-9; 2002, 20-21).

2. The aforementioned studies also concentrate on identifying best practice approaches in sustainability reporting. Determining the current situation in reporting practice is thus not the main focus. Instead, the reports selected for detailed evaluation are those that appear particularly good after an initial general analysis.

These two methodical decisions clearly show the focus and also the benefit of these types of survey. They offer a useful insight into the options generally open to companies for portraying their environmental and/or social performance in special integrated reports. By highlighting ‘exemplary’ reports, they also point the way for companies that are planning to introduce this style of reporting, or have already produced an initial, still weak version, and provide a yardstick for reporting.

Yet this approach also raises a number of fundamental methodical problems:

1. If a review is limited to individual reports only and a best practice model developed on this basis, this implies that the publication of dedicated reports (sustainability reports, environmental reports, social reports etc.) alongside the ‘classical’ annual report should be the preferred reporting model. This need not always be the ‘right way’.
2. Owing to the variety of different reports, previous studies were unable to avoid comparing apples and oranges to a certain degree. The question of how far it is permissible to compare the sustainability report of one company with the health, and safety report of a second and the environmental report of a third before developing a ranking list, is not satisfactorily explained in any of the studies mentioned.
3. The ‘global reporters’ analysed by SustainAbility/UNEP (2000; 2002) and the best Canadian reporters (Stratos 2001; 2003) are all large, mostly

multinational organisations. They have the financial means to produce reports of detailed content and design. For small and medium-sized companies such reports are of limited value as models.

The IfSM team attempted to solve these methodical problems with a new approach that is described below.

The IfSM Analysis Approach

The prime objective of the ‘Corporate Sustainability Reporting in Switzerland’ project was to analyse and evaluate the current practice of sustainability reporting by Swiss companies. For the purposes of the study, these were described as companies whose head office or one of their head offices is in Switzerland. Enterprises with an office in Switzerland, but whose parent company is based abroad, were excluded. The reason for this approach was that the research project was intended to produce a country-based report.

In a further step, it was agreed that the first study should be confined to an analysis of the reports issued by the top 100 Swiss companies. In a second stage, this basic total was extended to include the largest 250 Swiss companies. This was done for several reasons. Previous experience showed that much more responsibility with regard to increasingly global problems of our time, such as environmental pollution and social inequality, is placed on large companies rather than small and medium-sized businesses, thus exposing them to greater pressure from stakeholders in comparison. It was, therefore, to be assumed that only very few, if any, sustainability reports by non-multinationals exist. The results of the aforementioned international surveys also speak for this. Initially, sustainability reports (and their ‘historical forerunners’, the environmental reports) are developed primarily by multinationals (cf. Stratos 2001; 2002; SustainAbility/UNEP 2000, 2002). Only in a second phase do small and medium-sized companies jump on the bandwagon. It was, therefore, to be expected that by restricting the analysis to the aforementioned number of companies, almost all sustainability reports would be incorporated in the study.

To ensure the analysis covered all sustainability reports in the strictest sense of the term, the study team conducted extensive additional research. This revealed that, in addition to some of the largest companies, a number of smaller companies

published 'genuine' sustainability reports in Switzerland in the period between 2001 and 2003. These included cheesemaker Baer AG, textile manufacturer Rohner Textil, eyeglass lens producer Knecht & Müller and the Basellandschaftliche Kantonbank (a regional bank). The reports of these companies were given a 'wildcard' to allow them to be included in the surveys, even though they are not among the 100/250 largest Swiss enterprises.

Selection of the largest Swiss companies was made on the basis of turnover (total assets in the case of banks and gross premium revenues in the case of insurance companies). The companies thus identified were requested in writing to submit their annual reports and any other periodically released public reports. Owing to the aforementioned problems associated with focusing a study on individual reports, the project team decided to extend the research scope to include all the reports, issued by a company. Accordingly, all corporate reports containing information on a company's economic, environmental or social performance in a given reporting period (usually one year) were included in the research scope. Additional information (e.g., on the internet or in brochure or magazine form) was incorporated in the analysis only if explicitly termed a part of a report and only if it included data going beyond that contained in the reports (e.g., tables, detailed figures, case studies, etc.).

For the aforementioned reasons, the research team based its survey method largely on existing systems, most of which used the GRI Guidelines (2002) as a reference. The following presentation is, therefore, largely restricted to a description of the main differences between the various survey methods.

The Swiss survey established no essential differences in the four main categories (reporting clusters) used to ascertain the sustainability reporting dimensions in which conclusive statements were expected. In other words, they thus combine a certain number of suitably interlinked criteria, e.g., criteria relating to the credibility and communicative quality of the reporting or criteria that prompt quantitative information on performance, such as data on the proportion of renewable energies used in production or the percentage of management positions occupied by women.

Category A (Context and Focus) brings together general information, that a reporter should provide on the company and the reports issued. This includes,

for example, the company's vision in economic, environmental and social terms or a description of the markets in which the company intends to become more active in future and what this has to do with its role as a performer in the social and environmental field. Such descriptions allow the reader to recognise relatively quickly the extent to which a company looks beyond the end of its 'economic nose' and takes on more than simply the role of generating revenue and profit.

Category B collates much more specific information (Policy, Management Systems and Stakeholder Relations). Following the general introduction, the aim is to look at the stakeholder relations and management systems at a given company. Who are the company's stakeholder groups? How does it involve these groups in its decision-making processes? How does it manage the economic, environmental and social risks? Companies should answer questions such as these in order to demonstrate that they are serious in their attempts to contribute to the sustainable development of their social and ecological environment.

Whereas Categories A and B pool together information of a qualitative nature, Category C (Performance Indicators) contains data of a quantitative kind. It forms the heart of sustainability reporting, as it relates to specific data and facts a company can use to prove it is acting responsibly in economic, social and environmental terms.

The final category, Category D (Transparency and Overall Picture), includes criteria for measuring the transparency and reliability of the reporting. Is the information provided in the report credible, i.e., is it corroborated by statements by important stakeholders, for example? Is the report designed to allow readers to obtain quick and extensive information on company performance? Or are they provided with a 'mountain of papers' that confuses rather than informs?

The most significant difference between previous assessment systems and the one employed by the IfSM concerns the weighting of Category C (Performance Indicators). The research team was of the opinion that the criteria in this category should be weighted by a factor of 2 and thus more strongly than in previous studies, as it contains 'hard facts' on a company's performance in the three dimensions of sustainability. Whilst the Stratos survey system (2001; 2003) arrived

at a relatively similar weighting of Category C in comparison with the other categories, Stratos had to break down the reporting evaluation criteria into lots of small parts, which meant it lost coherence. The survey system also contained a number of criteria that cannot be transposed to Switzerland, such as 'Indigenous Peoples/Aboriginal Relations'.

The Swiss research team also based much of its approach on previous methods when it came to creating the basic rating scale for assessing the degree of fulfilment of a criteria by a report (or set of reports) and the survey method itself, resulting in no major differences in this dimension.

Experiences Gained from the Swiss Benchmark Surveys

The experiences gained from the studies of sustainability reports by Swiss companies ultimately demonstrated that the alternative methodical approach selected was able to overcome the problems associated with other survey methods. This was shown, on the one hand, by the analysis of the results conducted by the research team (see Daub *et al.*, 2003 and 2004) and, on the other, by the meetings held with representatives of middle and senior management at 25 Swiss companies where the study was presented upon completion in autumn 2003.

The most important findings of the Swiss surveys and interviews are summarised as follows:

1. If the research team had not included annual reports in the survey, it would have been denied access to some important findings. It would not have seen the report produced by the Zürcher Kantonalbank in 2003, for example. This bank does not publish a sustainability report, nor does it issue an environmental and/or a social report. Instead, it provided detailed information on its environmental and social performance in 2003 on 40 pages of its annual report. This report was ranked ninth overall in the first analysis. This confirmed the view that statements on the actual quality of sustainability reporting and the degree of integration of the three sustainability dimensions can be made only if all the publications regularly produced by a company have been taken into consideration.

2. After analysing the results, the Swiss research team was unable to share the view taken by previous surveys that the publication of a separate sustainability report was the 'right way'. The Zürcher Kantonalbank was not the only example of a company succeeding remarkably well in integrating environmental and/or social aspects in its annual report. ewz, for example, the utility company that supplies power to the city of Zurich, was ranked 18th in 2003 with its annual report, placing it ahead of companies that published a dedicated environmental report. In addition, the second part of the study revealed that 24 of the 122 companies under review are already integrating detailed information on their social and environmental performance in their annual reports.
3. A number of companies whose overall reporting fared comparatively poorly scored full marks in some criteria, presenting the required information in an exemplary manner. This demonstrates that it is wrong to focus on the best reports from the outset when conducting a survey.
4. Applying an evaluation system of the type used in comparable studies to all the reports issued by a company (rather than individual reports) proved unproblematic. Printed reports usually have a similar structure and can accordingly be reviewed in parallel. Under this alternative approach, therefore, the GRI Guidelines (GRI 2002) can still be used as a reference.
5. An evaluation of the performance of the reporters in the four reporting clusters highlighted substantial weaknesses in Category C (Performance Indicators) in both surveys. This shows that companies still have a lot of work to do with respect to the integration of 'hard' data and facts. The double weighting of this category provided clear indication that they will need to attach much more importance to this aspect in future.

Besides the findings obtained by analysing the results of the benchmark survey, more valuable information was garnered from the meetings held with managers on completion of the survey.

Many of the managers questioned expressed criticism that companies were being pushed to their limits based on increasing demands for increasingly detailed and regular reports. This can partly be explained by the fact that many Swiss

companies are busy implementing corporate governance guidelines (Swiss Business Federation 2002), which are more stringent in Switzerland in comparison with other countries. This criticism confirmed the Swiss research team's assumption that companies will increasingly have to be shown the benefits to be obtained by developing a system of sustainability reporting. There is also a need for systems to be developed to allow companies to introduce sustainability reporting in stages.

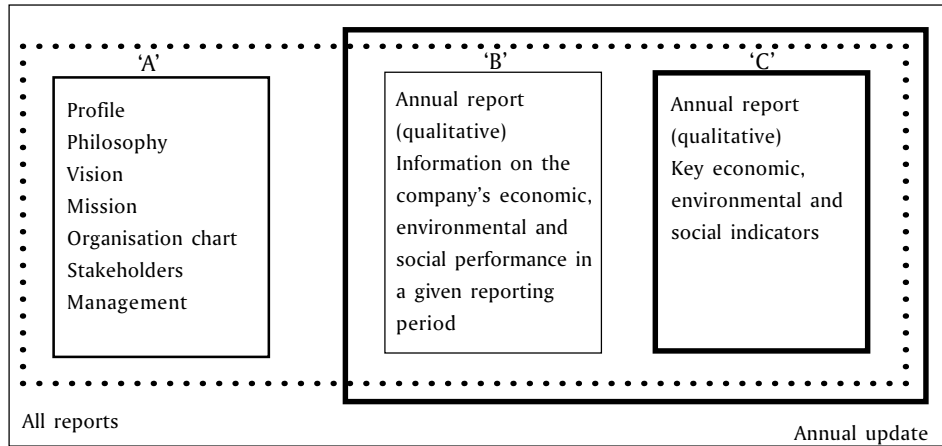
Another important point of criticism focused on the situation that surveys were frequently conducted by companies that also provide consultancy services in the area of corporate sustainability reporting. This problematic accumulation of responsibilities will have to be countered through neutral research institutions in future. Consultancies cannot and should not be allowed to evaluate reports to which they have made a significant contribution.

One of the most interesting findings that the Swiss research team obtained from the discussions resulting from this study was that many companies had evidently declined to integrate all the available information in their reports, including information which could, in principle, have been published. A variety of reasons were cited for this. Some companies mentioned that they consciously set out to avoid projecting themselves as overly 'social' organisations. This argument was expressed by public enterprises, in particular. They want to and have to demonstrate that they are up to the challenges posed by any future market deregulation. In their view, they can do this only by making express reference to their commercial capabilities and successes. Other companies stated that they were afraid of putting themselves at a competitive disadvantage by publishing environmental and/or social performance indicators, as this would reveal the 'recipe' for highly satisfied customers or staff, for example.

A Model for Integrated Corporate Reporting

Based on the findings of its work, the team developed a new integrated reporting model.

According to this model the reports produced by a company in a year (box with the dotted line) can be divided into two areas comprising information that does not have to be repeated every year even if it forms part of a company's general reporting requirement and information that has to be updated regularly (box with the unbroken line).



The first type of information (Box 'A') includes the company profile, its corporate philosophy and basic information about dealing with stakeholders, which rarely undergoes much change. Repeating this information every year only serves to increase the scope and cost of a report without the addition of any new content. A number of companies have already started 'spinning off' this kind of information into separate brochures that can be used over several years, yet are still considered a part of a company's overall reporting and are forwarded to interested parties. The Zurich utility ewz, for example, regularly sends out its corporate philosophy and environmental policy guidelines with its annual report; the industrial enterprise Rieter adopts a similar strategy but also adds a mission statement to the information material it produces (in 2004 it also published the document 'Women in Rieter'), while in 2004, the food multinational Nestlé attached its 'Business and Leadership Principles' as well as its 'Business Principles' to its annual report. The only danger almost automatically associated with this is the information overflow to which the reader is exposed.

Information that needs to be updated annually includes all quantitative information (figures charting the progress of the business and changes in environmental and social performance) and all qualitative information. Ideally, the latter should be prepared in the form of a well-designed and interesting 'activity report' that can easily be read by experts and lay persons alike. Such a report can by all means contain the odd figure, graphic or table, but should hold back in this respect and make reference to the quantitative section.

Whilst the qualitative part of the reporting should always (also) be available in printed form to ensure that all the company's stakeholders can access it, without the need for technical infrastructure and the appropriate expertise, another option is to place quantitative information on the Internet (in the graphic the the box 'B' area indicates information that should (also) be made available in printed form, while box 'C' stands for facts and figures that can be made available online). Banks of figures on the change in cash flow, the percentage of women in senior management positions and the company's energy consumption are normally only of interest to stakeholders with the equipment and knowledge needed to obtain this information via the Internet. These include shareholders, NGOs and usually the employees of the company concerned. Information that does not change every year, in turn, should be made available in printed form and on the Internet. The corporate philosophy, a list of management principles, information on how the company involves its stakeholders in decision-making processes— basic information that should be available to all interested parties at all times.

All this results in a 'lean', easy-to-read annual report of the new generation that is not rendered too long by repetitiveness and which provides specific information on what has happened at the company. Unlike its forerunner, however, this information is no longer restricted to economic matters. It also contains information on the environmental and social targets achieved, be it an increase in the use of renewable energies in the production process or an initiative aimed at integrating people with a disability.

To avoid any misunderstandings, it should be added that the model under description here can in principle also be used by companies that elect to issue an independent sustainability report. It thus deliberately avoids the question of whether information on a company's social and environmental performance should be published in a separate report or integrated in the annual report. The most likely prognosis for the future of corporate reporting is a coexistence of these two formal reporting types, with all previous forms of sustainability reporting likely to have disappeared from the market within a few years.

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