A thesis submitted to the Department of Environmental Sciences and Policy of Central European University in partial fulfillment of the requirements for the Degree of Master of Science in Environmental Sciences and Policy

THE PATH TOWARDS A GLOBAL FRAMEWORK ON CORPORATE SUSTAINABILITY REPORTING

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July 2012

Budapest

Author's declaration

No portion of the work referred to in this thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

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ABSTRACT OF THESIS submitted by:

Magdalena PASZKIEWICZ for the degree of Master of Science and entitled 'The path towards a global framework on corporate sustainability reporting'.

Month and Year of submission: July, 2012.

This thesis paper considers the path leading towards a global framework on corporate sustainability reporting in analyzing the existing voluntary international corporate sustainability reporting framework and the discourse promoting the development of a global framework on corporate sustainability reporting within the dialogue of the Rio +20 United Nations Conference on Sustainable Development.

This thesis paper identifies that existing corporate sustainability disclosures focus on business and investor interests and lack the public consultation and civil society engagement required to promote corporate sustainability reporting that enhances corporate transparency and accountability. This thesis paper further illustrates that the current impetus of the dialogue is predominantly driven by interested stakeholders promoting a mandatory global framework on corporate sustainability reporting that adopts a 'report or explain' approach to corporate sustainability reporting based on the Global Reporting Initiative's sustainability framework.

This thesis paper concludes by suggesting that future policies to develop a global framework on corporate sustainability reporting should support a broad public consultation process and the inclusion of all stakeholders in development and implementation phases, along with independent verification of sustainability disclosures and monitoring of related corporate activities, in order to guide the path towards a comprehensive and comprehensible corporate sustainability reporting framework that promotes transparency and accountability of corporate activities, and ultimately enhances accessibility to justice by civil society.

Key words: *corporate sustainability reporting, global policy framework, mandatory disclosure, Rio +20 United Nations Conference on Sustainable Development*

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INTRODUCTION

The exponential growth of corporate sustainability reporting and corporate disclosure practices in recent decades has seen corporate reports move beyond the disclosure of traditional financial indictors towards broader environmental and social considerations, as the business sector seeks to placate increasing pressures from civil society for greater accountability, transparency and disclosure of corporate activities by attempting to '*satisfy the information needs of external and internal shareholders*' (Ballou *et al*. 2006). Alongside the exponential growth of corporate sustainability reporting practices, numerous voluntary instruments, non-financial reporting standards and guidelines, and associated service organizations have developed to assist and guide the practice of corporate sustainability reporting. Today, there exists a diverse array of international instruments seeking to guide voluntarily corporate sustainability reporting.

The concept of a global framework on corporate sustainability reporting was first raised by non-governmental groups ahead of the 2002 World Summit on Sustainable Development in seeking to promote greater accountability and liability for the environmental and social impacts of corporate behavior. The notions of an international framework on corporate sustainability reporting were recently reignited with a number of interested stakeholders actively supporting proposals for a global policy framework on corporate sustainability reporting ahead of the Rio +20 United Nations Conference on Sustainable Development held in Rio, Brazil from 20-22 June 2012. The current dialogue expressly highlights a number of the existing international voluntary corporate sustainability reporting instruments as laying the foundations for the future development of a global framework on corporate sustainability reporting.

Despite recent studies recognizing the benefits of mandatory reporting in enhancing socially responsible practices of corporate behavior (Ioannou and Serafeim 2012) and the need for further research to consider the variation in content and depth of current reporting practices (Othman and Ameer 2009), little academic attention has thus far considered the development of an international mandatory disclosure framework addressing corporate sustainability reporting.

This thesis paper therefore provides a timely analysis of the existing discourse promoting the development of a global framework on corporate sustainability reporting having arisen within the current dialogue of the Rio +20 United Nations Conference on Sustainable Development. This thesis paper aims to identify the key gaps and weaknesses of the current path towards a global framework on corporate sustainability reporting, in order to suggest mechanisms for guiding the path towards the development of a global framework on corporate sustainability reporting that enhances the transparency and accountability of corporate activities. In doing so, this thesis paper will:

- identify the gaps and weaknesses within the existing voluntary international corporate sustainability reporting instruments that are being highlighted as laying the foundations for the future development of a global framework on corporate sustainability reporting (chapter 1);
- outline the position of stakeholders and interest groups supporting the adoption of a global framework on corporate sustainability reporting within the context of the Rio +20 United Nations Conference on Sustainable Development discourse, and analyze the scope and content of this support (chapter 2); and

- analyze the dominant model being proposed by key stakeholders in the current discourse for a mandatory global framework on corporate sustainability reporting (chapter 3).

This thesis paper concludes by highlighting the key gaps and weaknesses of the existing voluntary international corporate sustainability reporting framework and the current impetus of the path leading towards a global framework on corporate sustainability reporting, and suggests mechanisms for addressing these in order to guide the future development of a global framework on corporate sustainability reporting towards the enhancing the transparency and accountability of corporate activities for their social and environmental impacts.

LITERATURE REVIEW

Corporate social responsibility and corporate sustainability

The responsibility of corporations for their social and environmental behavior as ‘corporate citizens’ has been subject to a great deal of academic analysis and is the focus of a vast collection of literature. Formal writings on corporate social responsibility emerged in the 1950’s following the post-war examinations of relationships between business, society and governments, and the promotion of obligations on corporations to work for ‘social betterment’ (Davis 1960; Frederick 1994; Othman and Ameer 2009). These early writing focused on the ‘social consciousness’ of managerial action and business activities (Carroll 1999) with empirical research notably absent as the development of conceptual theories to analyze and explain corporate social responsibility practices dominated related literature (Carroll 1999; Moir 2001).

The discourse on corporate obligations transitioned towards ‘corporate social responsiveness’ and the ethical behavior of corporate management within the 1970’s and 1980’s (Carroll 1999; Moir 2001), as the growing civil and women’s rights movements, corporate corruption revelations and the recognition of the health and environmental impacts of industrial activities propelled greater efforts to regulate corporate activities at both international and national levels (Kolk *et al*. 1999; Kolk and van Tulder 2002). As the increasing public scrutiny of the activities of multinational corporations in developing countries and growing environmental awareness drove non-governmental campaigns against specific companies, international organizations such as the United Nations and the International Labour Organization sought to develop principals and standards to regulate multinational activities whilst voluntary codes of conduct began to emerge from within influential multinational companies based in the United States of America and the United Kingdom (Broomhill 2007).

The recognition of ‘business ethics’, corporate accountability and stakeholders extending beyond the company’s shareholders began to dominate related discourse at this time, with notions such as the ‘*social contract between business and society*’ developing as public opinion surveys discovered the strong recognition by civil society for corporate moral obligations (Carroll 1999). Research studies at this time began to investigate the extent of corporate engagement and implementation of corporate social responsibility practices, the type of corporate social responsibility activities undertaken and the effects of these activities on corporate structures and budgets (Carroll 1999).

Broader stakeholder theories and corporate citizenship themes have emerged in recent decades (Carroll 1999) as an immense growth in the power and influence of corporations, with economic policies driving the amalgamation of corporations through merger and acquisitions and promoting foreign direct investment (Broomhill 2006), further fuelled mounting public pressure from civil society within developed countries for the regulation and supervision of multinational corporate behavior, specifically to address social welfare and environmental management within certain sectors (Broomhill 2006).

The emergence of the ‘sustainable development’ concept following the publication of the ‘Our Common Future’ report of the World Commission on Environment and Development in 1987 saw notions of ‘corporate sustainability’ dominate as related literature considered the various meanings and definitions of sustainability in seeking to define sustainable practices and guidelines for business activities (Moneva *et al.* 2006). Coupled with more recent economic downturns and financial collapses, the corporate social responsibility discourse has seen a shift towards a greater focus on 'corporate sustainability' as corporate social responsibility is increasingly integrated into business practices (Hohnen and Potts 2007). Today, the terms 'corporate social responsibility' and 'corporate sustainability' are often used interchangeably, despite divisions in academia on whether the concepts are in fact converged or remain '*subtly distinct*' (Roca and Searcy 2012), with the concept of 'corporate social responsibility' often considered more representative of traditional notions of voluntary corporate social action and philanthropy (Correa-Ruiz and Moneva-Abadía 2011).

As sustainability issues gain increasing prominence among stakeholders and corporations alike, a growing body of research has explored the motivations for corporations engaging in sustainability reporting activities and considered the 'business case' for corporate sustainability in identifying the economic benefits to corporations from engaging in corporate sustainability activities (Roca and Searcy 2012). These studies traditionally focused on the relationship between a corporation's social, environmental and financial performances, the perception of corporate management to sustainability and the 'value-relevance' of sustainability disclosures (Othman and Ameer 2009). More recently, however, studies are shifting away from '*debating whether or not corporate sustainability should be implemented to how it can be done in practice*' (Roca and Searcy 2012).

Corporate accountability and sustainability reporting

Literature addressing environmental accounting and sustainability reporting flourished in the 1990s, in response to the exponential growth of corporate sustainability reporting practices by the business sector, and a growing body of research on sustainability accounting and corporate sustainability reporting has subsequently developed (Lamberton 2005; Roca and Searcy 2012). The term 'triple bottom line' was coined in 1997 (Sherman and DiGuilio 2010) to promote corporate reporting on economic, social and environmental impacts (Correa-Ruiz and Moneva-Abadía 2011). More recently, the notion of 'corporate sustainability reporting' has emerged to encompass financial and non-financial reporting to a broader set of stakeholders, extending beyond a company's shareholders (Ballou *et al.* 2006), and is a reflection of the shifting focus in the corporate social responsibility discourse towards corporate sustainability. Both concepts, along with similar terms such as green, environmental or sustainability accounting, remain commonly used interchangeably (Choudhuri and Chakraorty 2009; Roca and Searcy 2012).

Research addressing the trends in sustainability reporting has steadily expanded (Roca and Searcy 2012) and a wide range of social and environmental accounting research has arisen in the last decade seeking to understand the accountability and transparency of corporate reporting in different sectors and institutions (Correa-Ruiz and Moneva-Abadía 2011). More recently, studies have focused on investigating the indicators used, and disclosures made, within corporate sustainability reporting (Roca and Searcy 2012), including detailed analysis of the structure and content of corporate sustainability reports conducted by consulting companies, for example KPMG's international survey of corporate responsibility reporting (KPMG 2011). In addition, numerous national-level studies have considered corporate sustainability reporting practices across the globe, and have analyzed the content, scope and structure of corporate sustainability reports within specific jurisdictions and business sectors (Roca and Searcy 2012).

Corporate sustainability reporting guidelines

The proliferation of various international and national reporting guidelines and standards to assist in guiding voluntary corporate sustainability reporting in recent decades has further promoted academic research exploring the comparability of information disclosed within corporate sustainability reports and the success of high-profile international reporting frameworks such as the Global Reporting Initiative's sustainability reporting framework and guidelines (Sherman and DiGuilio 2010). Although the Global Reporting Initiative's guidelines are considered in current literature to be emerging as the paramount corporate sustainability framework (Ballou *et al*. 2006; Choudhari and Chakraborty 2009; Roca and Searcy 2012), this body of research has identified that there remains an absence of a clearly defined and mutually agreed framework (Othman and Ameer 2009) with corporate sustainability reporting continuing to be '*plagued by [a] lack of uniformity, consistency and comparability*' (Sherman and DiGuilio 2010). Recent studies have identified that a vast discretion in reporting indicators together with the lack of standardization has lead to uneven disclosure in corporate sustainability reporting across all sectors and jurisdictions (Roca and Searcy 2012).

Mandatory corporate sustainability disclosures

The growing practice of corporate sustainability reporting has most recently been further propelled by the adoption of mandatory reporting requirements by national governments and stock exchange authorities seeking to codify sustainability reporting of listed companies in a number of jurisdictions, including Australia, Denmark, China, India and South Africa (IRI 2012). In response, research considering the benefits of mandatory sustainability reporting and its effects on corporate socially responsible practices is beginning to emerge with Ioannou and Serafeim (2011) investigating the effects of mandatory sustainability reporting on the environmental, social and governance managerial practices across 58 countries. Their study concluded that mandatory reporting effectively promotes socially responsible managerial practices.

Existing research gap

The need for further research on the current practices and discourses on corporate sustainability accounting and reporting has been recognized as necessary for moving forward the still relatively '*weak discourse on social responsibility and sustainability accounting and reporting*' (Correa-Ruiz and Moneva-Abadía 2011). Little academic attention has thus far been paid to the consideration of an international mandatory disclosure framework addressing corporate sustainability reporting despite the recognition of the benefits of mandatory reporting (Ioannou and Serafeim 2011) and the need to address the variation in content and depth of current reporting practices (Othman and Ameer 2009). The need for further research on mandatory reporting of indictors was most recently identified by Roca and Searcy (2012), who considered research into the benefits and drawbacks of mandatory reporting, the specification of required disclosures, the accommodations that would be required for different sectors and the enforcement of such requirements (Roca and Searcy 2012) as potential streams of further studies to assist in addressing '*the lack of agreement on information corporations should be disclosing publicly*'. These existing research gaps are considered '*even more urgent nowadays, at a time* *when sustainability performance does not seem to match the expectations raised by the sustainable development concept and, moreover, when the economic and financial crisis could be further eroding social and environmental concerns and values and creating a sustainability downturn*' (Correa-Ruiz and Moneva-Abadía 2011).

This thesis paper therefore proposes to provide a timely analysis of the existing discourse on the development of global mandatory framework on corporate sustainability reporting, in light of the current proposal for a global framework on corporate sustainability reporting within the dialogue of the Rio +20 United Nations Conference on Sustainable Development. This thesis paper will analyze the content, scope and reliability of the predominant existing voluntary international corporate sustainability reporting instruments in order to identify the gaps and weaknesses of the existing global voluntary corporate sustainability reporting framework that is the subject of current proposals for a global policy framework on corporate sustainability reporting. This thesis paper will also consider the current support for a global framework on corporate sustainability reporting and will analyze the dominant model being proposed by key stakeholders in the current discourse. In identifying the gaps and weaknesses in the existing voluntary framework and current proposals supporting a global mandatory framework for corporate sustainability reporting, this thesis paper will seek to suggest mechanisms for addressing these in developing a global mandatory framework on corporate sustainability reporting that enhances transparency and accountability of corporate activities.

METHODOLOGY

This thesis paper explored the gaps and weaknesses of the existing voluntary global corporate sustainability framework and analyzed the existing discourse promoting the development of a global policy framework on corporate sustainability reporting. Specifically, this thesis paper identified the gaps and weaknesses within the existing global voluntary corporate sustainability reporting framework by analyzing the content, scope and reliability of those international voluntary corporate sustainability reporting instruments being heralded in the current discourse as laying the foundations and benchmarks for the development of a future global policy framework on corporate sustainability reporting. This thesis paper further analyzed the current discourse promoting the development of a global mandatory framework on corporate sustainability reporting, in considering the dominant model proposed for the development of a global policy framework for corporate sustainability reporting arising within the context of the Rio +20 United Nations Conference on Sustainable Development. This thesis paper concludes by suggesting key mechanisms to addresses the gaps and weaknesses in the current path towards a global framework on corporate sustainability reporting to guide future policies towards enhancing corporate transparency and accountability.

The research methods employed to gather the relevant data for this thesis paper included a combination of:

1. analysis of existing international corporate sustainability reporting instruments and the current dialogue supporting the proposal for a global framework on corporate sustainability reporting through publically accessible sources; and

2. interviews of selected subjects who hold specific expertise in the thesis topic, or those stakeholders participating in the current dialogue.

These research methods are described in greater detail below.

Research design and methods of data collection

1. Analysis of existing instruments and current discourse

Research of the existing international voluntary corporate sustainability reporting instruments was undertaken in order to identify any gaps and weaknesses within the existing global voluntary corporate sustainability reporting framework that is being considered to guide the development of a proposed global framework on corporate sustainability reporting. The content, scope and reliability of the existing predominant international corporate sustainability reporting instruments was analyzed through conducting an evaluation of the:

- content of sustainability disclosures promoted;
- the scope of stakeholder interests engaged in the development and implementation of each instrument, along with the target audience to whom the sustainability reporting disclosures are tailored; and
- the reliability of disclosures based on the independent verification processes of the information disclosed by companies within sustainability reports.

In addition, the current discourse supporting the development of a global mandatory framework for corporate sustainability reporting was analyzed through an evaluation of the relevant submissions and related stakeholder statements addressing the current proposals for a global policy framework for corporate sustainability reporting which have emerged in response to proposals sought at the Rio+20 United Nations Conference on Sustainable Development.

2. Interviews of subjects

Analysis of the existing predominant international corporate sustainability reporting instruments and the current dialogue guiding the proposals for a global framework on corporate sustainability reporting (discussed above) was further supplemented by conducting interviews of selected subjects. The interview subjects were selected due to their specialized knowledge, expertise and active participation in the research topic in order to offer further insights into the status of the current discourse and the drivers of proposals for the development of a mandatory global framework on corporate sustainability framework.

Specifically, representatives were selected from:

- existing corporate sustainability reporting instruments in order to identify and analyze the content, scope and reliability of corporate sustainability disclosures under these instruments, and hence identify any gaps and weaknesses in the existing global voluntary framework on corporate sustainability reporting seeking to guide the development of a future global framework on corporate sustainability reporting;

- stakeholder organizations actively supporting a global framework on corporate sustainability reporting in order to identify and analyze the interests and drivers for the development of the proposed global corporate sustainability reporting framework; and

- non-government organizations expressly criticizing the current proposals for a global framework on corporate sustainability reporting in order to identify the gaps and weaknesses within the current discourse and proposals for a mandatory global framework on corporate sustainability reporting.

A ‘snowball sampling’ method was employed whereby the selected subjects made further recommendations for interview subjects with respect to the research topic and suggested additional interviewees and contact points from their relevant networks and professional associations (Biernacki and Waldorf 1981).

The interviews were conducted largely in the form of ‘unstructured interviews’ with guiding questions used that were related to the research topic and relevant to the subject being interviewed. The interview questions and times therefore varied between subjects, depending on the scope of the interview and the availability of the interviewee. Subjects were generally interviewed via telephone or skype conversations, although email correspondence was used in some instances.

Limitations of research

The limitations of the research design and methods of data collection employed predominantly arose from the limited scope of study necessitated by the timing and resource constraints of the thesis research period.

As the research topic predominantly focused on examining the development of a global mandatory framework for corporate sustainability reporting for which current proposals have arisen most recently in the context of initiatives proposed for the Rio +20 United Nations Conference on Sustainable Development, the research, analysis and interviews that were conducted therefore predominantly focused on those engaged in the current discourse. Further, as the timing of this thesis paper unfortunately coincided with the Rio +20 United Nations Conference on Sustainable Development held in Rio, Brazil from 20-22 June 2012, many representatives from the relevant organizations were unavailable to provide comment or participate in interviews during the research period. The time limitations and resource constraints of the research period therefore necessitated reliance on secondary sources of information where relevant interview data was unavailable.

Similarly, in examining and analyzing the predominant existing international corporate sustainability reporting instruments that are being heralded in the current discourse as guiding the development of a global mandatory framework on corporate sustainability reporting, the time limitations and resource constraints of the research period further inhibited a thorough in-depth analysis of all existing international corporate sustainability reporting instruments and recommendations through conducting a complete analysis of the current global voluntary framework on corporate sustainability reporting. Therefore narrowing the scope of the thesis paper, to considering those predominant internationally recognized global corporate sustainability reporting instruments that are being highlighted in the current discourse, was necessary. In addition, in light of the time limitations and resource constraints of the research period, an in-depth analysis of the reporting indicators and disclosure recommendations of these predominant international instruments was considered beyond the scope of this thesis paper. Therefore to review the content, scope and reliability of these existing instruments in order to identifying any key gaps and weaknesses within these existing structures, an analysis of the key themes for disclosure, the scope of stakeholder interests engaged in the development and implementation of each instrument, along with the target audience to whom the sustainability reporting disclosures are tailored, and any independent verification process of corporate sustainability reports was instead undertaken.

CHAPTER 1

THE EXISTING VOLUNTARY GLOBAL FRAMEWORK ON CORPORATE SUSTAINABILITY REPORTING

Although notions of social reporting and corporate accounting that extend beyond the traditional disclosure of business and financial operations first emerged within Europe, specifically France and the Netherlands, in the 1960s (KPMG Advisory N.V. *et al.* 2010), these disclosures initially focused predominantly on human resources reporting, with government regulation requiring reporting of labor issues (KPMG Advisory N.V. *et al.* 2010). The growth of corporate disclosure practices to address broader environmental and social impacts of business activities flourished in the 1990s as the business community sought to placate increasing public pressures for greater accountability of corporate activities, along with the broader reporting requirements imposed by increasing national regulation of highly polluting activities and pressures from shareholders seeking consideration of social and environmental performance in guiding 'ethical investment' decisions (KPMG Advisory N.V. *et al.* 2010). The international community equally encouraged corporations to '*report annually on their environmental records, as well as on their use of energy and natural resources*' at the 1992 United Nations Conference on Environment and Development (UNDESA 2009) and '*to improve...public reporting on environmental and social issues*' at the 2002 Johannesburg World Summit on Sustainable Development (United Nations 2002). As the push for greater accountability, transparency and disclosure of corporate activities continues to grow amidst unstable global economic conditions, sustainability reporting has flourished, from less than 50 non-financial reports produced in 1992 to current global corporate disclosure practices seeing 95 percent of the 250 largest companies and 69 percent of listed companies reporting on their corporate responsibility activities (KPMG 2011).

However, as this growth of corporate sustainability reporting predominantly grew out of voluntary disclosure practices from within the corporate sector and outside of any regulatory framework, stark variations in the content and format of reporting was seen in early corporate sustainability reports with the absence of accepted reporting standards (IISD 2012). Following the development of the first environmental reporting guidelines by the Coalition for Environmentally Responsible Economies on behalf of the Social Investment Forum (KPMG Advisory N.V. *et al.* 2010), an explosion of voluntary instruments, non-financial reporting standards and guidelines, and associated service organizations have developed alongside to assist and guide the practice of corporate sustainability reporting.

Today, there exists a number of international instruments to guide voluntary corporate sustainability reporting. These predominant international instruments are being heralded as setting the foundations for the development of a future global framework for corporate sustainability reporting. Specifically, those existing instruments being currently highlighted as setting the benchmarks for the development of a future global framework on corporate sustainability reporting include the Global Reporting Initiative, the International Organization for Standardization standards on social responsibility and environmental management, the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, the Climate Disclosure Standards Board climate change reporting framework, the Extractive Industries Initiative and the Sustainable Stock Exchanges initiative.

This existing global voluntary framework on corporate sustainability reporting can be seen, however, to consist of a multitude of diverse reporting frameworks and standards that provide a breadth of reporting guidance for the business sector in corporate sustainability reporting. The variability in sustainability reporting guidance appears through a consideration of the content of reporting themes promoted for disclosure, the scope of stakeholder interests engaged in the development and implementation of each instrument, along with the target audience to whom the sustainability reporting disclosures are tailored, and the reliability of corporate sustainability disclosures through the existence of independent verification processes.

As is illustrated in this chapter, the content, scope and reliability of international corporate sustainability reporting instruments ranges widely, from the narrow focus of those instruments targeting specific disclosures, such as the greenhouse gas accounting and reporting tools of the Greenhouse Gas Protocol and the Climate Disclosures Standards Board, to the broad focus of those instruments seeking to encompass the entirety of corporate sustainability reporting, such as the Global Reporting Initiative and the International Integrated Reporting Council. Similarly the scope of sustainability information disclosed under these instruments is equally diverse, with disclosures ranging from those targeting specific stakeholder interests, such as the investor industry under the Climate Disclosures Standards Board and the International Integrated Reporting Council, to those instruments promoting sustainability reporting that is widely accessible and useful to a broad sector of stakeholders ranging from civil society, national governments and the business industry, such as the International Organization for Standards 26000 social responsibility guidance. In turn, the reliability of sustainability reporting varies from the validation process undertaken by the Extractive Industries Transparency Initiative and the recommendations for independent auditing by the OECD Guidelines, to the self-assessment assurance process of the Global Reporting Initiative and the lack of independent verification of the United Nations Global Compact.

This chapter provides an overview of the existing voluntary global framework on corporate sustainability reporting by considering the scope, content and reliability of those predominant international instruments that are being highlighted in the current dialogue promoting a global framework on corporate sustainability reporting (discussed in greater detail in chapter 2), and seeks to identify any gaps and weaknesses within these existing structures upon which a global mandatory framework on corporate sustainability reporting is proposed to develop.

1.1 Existing international corporate sustainability reporting instruments

1.1.1 Global Reporting Initiative's sustainability reporting framework

The Global Reporting Initiative is a network-based non-profit organization, largely comprising of sustainability experts, providing organizational reporting guidance (GRI [2012a]) through a sustainability reporting framework.

The Global Reporting Initiative sustainability reporting framework comprises:

- sustainability reporting guidelines[1] providing guidance on reporting in the form of management approach and performance indicators disclosure in economic,

[1] The sustainability reporting guidelines are currently in their fourth version, the G3.1 guidelines released in 2011 as an update of the third generation G3 guidelines that were launched in 2006. The Global Reporting Initiative is

environment and social (including labor, human rights and product responsibility) categories (GRI [2012e]);

- sector supplements which provide tailored sustainability reporting guidelines for specific sectors, including financial services, mining and metals, oil and gas industries, food processing and non-governmental organizations (GRI [2012l]);
- national annexes[2] to provide tailored sustainability reporting guidelines for national and regional sustainability issues and assist corporate sustainability reporting to address local issues and be tailored to the local audience (GRI [2012g]); and
- boundary and technical protocols which provide advice on the content of sustainability reports including the scope and range of reporting coverage (GRI [2012n]).

The Global Reporting Initiative's sustainability framework was developed to '*create a global common framework for the voluntary reporting of the economic, environmental and social impacts of corporate and, gradually, other organizations*' (Brown *et al.* 2007), through the contributions of the Global Reporting Initiative's network of professionals representing '*corporations, governments, non-governmental organizations, consultancies, accountancy organizations, business associations, rating organizations,*

currently developing the fourth generation of its sustainability reporting guidelines (G4 guidelines) to be launched in May 2013 (GRI [2012f]).

[2] Currently GRI is developing its first national annex, the Brazilian National Annex. Public comments on the proposed draft Brazilian National Annex were sought in 2011 and the final version is yet to be published, following final review and approval by the Global Reporting Initiative governing bodies (GRI [2012d]).

*universities and research institute*s' (GRI [2012d]). Since the publication of its initial framework, the Global Reporting Initiative has sought to periodically revise its reporting guidelines in order to '*broaden the stakeholder base of the guidelines, to improve sustainability reporting and to advance its usefulness and credibility*' (Moneva *et al.* 2006). However, the Global Reporting Initiative has been reported as engaging a consortium of stakeholder companies including Alcoa, Shell, GE and Goldman Sachs, along with the 'Big Four' accounting firms of Deloitte, Ernst & Young, KPMG and PriceWaterhouseCoopers, to revise and update its existing guidelines, although the revised guidelines are to be developed with '*the help of several groups of stakeholders, including business, labor, institutional investors, analysts, standards setters, assurance providers and NGOs*' (Vijayaraghavan 2011). In addition, although the Global Reporting Initiative sought public participation on updating its guidelines through a public comment period, this participation was dominated by European mediating institutions and business (GRI 2012). It has been further recognized that these business sector perspectives will continue to represent '*a key aspect of consensus*' in defining the scope and target audience of the Global Reporting Initiative's sustainability framework and guidelines, whilst the success of the Global Reporting Initiative's sustainability reporting instrument is measured according to the number of reporting organizations adopting its guidelines (Moneva *et al.* 2006).

In addressing the reliability of corporate sustainability disclosures under the Global Reporting Initiative sustainability framework, the Global Reporting Initiative does not analyze the content of corporate sustainability reporting, and instead relies on organizations to self-assess the extent to which their sustainability reports apply the Global Reporting Initiative reporting guidelines, although a confirmation service is available for those organizations wishing to have their self-assessment levels confirmed by the Global Reporting Initiative (GRI [2012b]). In addition, although the Global Reporting Initiative recommends external assurance of its reports, it does not assess the choice or scope of assurance, merely confirming that an assurance statement has been issued for submitted reports (GRI [2012c]). The Global Reporting Initiative does however compile all corporate sustainability reports based on its sustainability reporting framework and those which reference its sustainability reporting framework within its 'sustainability disclosure database' to allow for comparability between reporting disclosures and analysis of reporting trends (GRI [2012m]).

1.1.2 International Organization for Standardization's standards for social responsibility, and environmental management

The International Organization for Standardization is a non-governmental organization comprising a network of national standard institutes that develops and publishes international standards (ISO 2011a). The International Organization for Standardization has released a number of standards that address sustainability reporting which seek to guide the content of corporate sustainability reports, specifically:

- ISO 26000 guidance for social responsibility, contains guidance for organizations on socially responsible operations, including for communicating commitments, performance and other information related to social responsibility (ISO 2011b); and

- ISO 14000 environmental management standard series that includes guidelines for external environmental communications and standards for environmental performance evaluation and greenhouse gas accounting (ISO 2009).

Although the International Organization for Standardization explicitly encourages 'social responsibility' reporting in its social responsibility guidance ISO 26000, these guidelines only provide general guidance as to the information that should be disclosed, noting that organizations should '*include information about its objectives and performance on the core subjects and relevant issues of social responsibility [and] it should describe how and when stakeholders have been involved in the organization's reporting on social responsibility*' (GRI 2011b). Specifically the ISO 26000 is intended to '*enhance the credibility of reports and claims made about social responsibility*' by assisting organizations to address their social responsibilities, and identify and engage with stakeholders (Webb 2007).

In developing its standards, the International Organization for Standardization seeks to promote a broad stakeholder consultation process, noting that a wide gender-balanced range of stakeholders were consulted in developing the ISO 26000 social responsibility guidance including representatives from '*government, labor, consumers, nongovernmental organizations, service, support [and] research*' sectors across a breadth of geographical locations (ISO 2011b), including equal participation of experts from developed and developing countries (Webb 2007). However, the ISO 26000 social responsibility guidance has nonetheless been considered as '*a platform for consensus of involved parties*' (Castka and Balzarova 2008) with the specific interests of participating stakeholders propelling the development of the ISO 26000 as a guidance-level document as opposed to a social responsibility standard, despite non-governmental organizations and consumers preferring an approach adopting a '*mandatory minimum standard that could be more demanding*' (Castka and Balzarova 2008). Key interested stakeholders were reported as including the International Labour Organization which sought to retain veto power over labor related sections and the Global Reporting Initiative in seeking to protect its own interests in developing social responsibility standards (Castka and Balzarova 2008). In addition, the development of the ISO 26000 social responsibility guidance sought to align and ensure consistency with existing standards, with the International Organization for Standardization signing memorandums of understanding with the UN Global Compact and the OECD to further '*enhance cooperation in development of ISO 26000*' (ISO 2011b). In addition, the '*underrepresentation of NGOs and public interest organizations*' in stakeholder participation and decision-making of the International Organization for Standardization's environmental management committee has attracted disapproval and disappointment from nongovernmental organizations seeking '*balanced stakeholder participation in the organization's standards development and policy decision-making*' claiming '*business dominance and marginalization of public interests in standardization*' (INNI 2009).

Although the ISO 26000 social responsibility guidance is not subject to external assurance, implementation of the ISO 14000 environmental management standards are subject to third-party certification. However, concerns '*over malpractice in third-party certification and … the somewhat negative attitude amongst practitioners towards ISO management system standards and third-party certification*' have plagued the independence and external assurance of ISO 14000 environmental management standards implementation (Castka and Balzarova 2008).

1.1.3 United Nations Global Compact principles

The United Nations Global Compact (**UN Global Compact**) is a '*strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption*' (UN GC 2011b). The UN Global Compact comprises a set of ten principles in human rights, labour standards, the environment and anti-corruption that it '*asks companies to embrace, support and enact, within their sphere of influence*' (UN GC [2012b]).

In addressing sustainability reporting, the UN Global Compact '*offers a policy framework for the … disclosure of sustainability principles and practices related to its four core areas; human rights, labour, the environment and anti-corruption* ' and businesses joining the initiative are expected to '*integrate in its annual report (or in a similar public document, such as a sustainability report) a description of the ways in which it implements the principals and supports broader development objectives*' (UN [2012a]).

The UN Global Compact blueprint for corporate sustainability leadership (2010) promotes that:

- sustainability information is shared with all interested parties and responds to stakeholder inquiries and concerns; and
- that communication on the company's progress in implementing the UN Global Compact principals are integrated into annual financial reports or published together, and that such communication is externally verified or other methods for legitimization by external stakeholders is sought.

The UN Global Compact policy on communicating progress (2011c) adopts a 'report or explain' model which requires companies to describe the practical actions taken to implement the UN Global Compact principals, or provide an explanation where one of the core issue areas of the UN Global Compact, being human rights, labour, the environment and anti-corruption, are not addressed. Companies that fail to submit an annual communication on progress that meets these requirements may be expelled from the UN Global Compact and the names of expelled companies are publicly listed on the UN Global Compact website (UN GC 2011c).

Critics of the UN Global Compact however criticize its accountability mechanisms (FOEI 2012b), specifically noting that no selection criteria exists for participating companies signing up to the UN Global Compact, that the content of company progress reports submitted by participating companies are not reviewed, and that there is a lack of monitoring of corporate activities (Kopppes 2012). In addition, the UN Global Compact has received strong criticism for the lack of enforcement and independent verification of corporate participation in the UN Global Compact principals (Whitehouse 2003; Kopppes 2012).

1.1.4 OECD Guidelines for Multinational Enterprises

The OECD guidelines for multinational enterprises (**OECD Guidelines**) are '*recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation*' (OECD [2012]).

In addressing corporate sustainability reporting, the OECD Guidelines (2011) recommend that '*enterprises should apply high quality standards for … non-financial disclosure, including environmental and social reporting where they exist. The standards or policies under which information is compiled and published should be reported. An annual audit should be conducted by an independent, competent and qualified auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the enterprise in all material respects*'. The OECD Guidelines (2011) encourage that non-financial disclosure '*may pertain 'to entities that extend beyond those covered in the enterprise's financial accounts. For example, it may also cover information on the activities of subcontractors and suppliers or of joint venture partners. This is particularly appropriate to monitor the transfer of environmentally harmful activities to partners*'.

As the OECD Guidelines form part of the broader OECD Declaration on International Investment and Multinational Enterprises, '*their main audience is* *companies involved in international investment*' (GRI 2004). The OECD Guidelines were formally developed and approved through a government-led process to predominantly address multinational organizations in setting the '*range of expectations that adhering governments have from enterprises that operate in or form their territory*' (GRI 2004). The OECD Guidelines were developed in cooperation with business and industry, and trade union advisory committees to ensure that '*the [G]uidelines benefited fully from the views of business and labour*', although a multi-stakeholder participation process, including through an international network of non-governmental organizations, was also undertaken (OECD 2012b). In the most recent revision of the OECD Guidelines, consultation is reported as having been sought from business, labour, non-governmental organizations, non-adhering countries and international organizations (OECD 2012a).

1.1.5 Climate Disclosure Standards Board Climate Change Reporting Framework

The Carbon Disclosure Standards Board is a project of the not-for profit organization Carbon Disclosure Project promoting the measurement and disclosure of greenhouse gas emissions, climate change risk and water strategies through a global collection of self-reported climate change data (CDP 2012). The Climate Disclosure Standards Board focuses on the integration of climate change related information into mainstream corporate reporting (CDSB 2010).

The Climate Change Reporting Framework is a voluntary framework for standardizing climate change-related disclosure in mainstream financial data by building on existing climate change disclosure standards and practices, including the Greenhouse Gas Protocol and International Financial Reporting Standards (CDSB 2012). The framework specifically targets investors as the primary uses of the climate-change related disclosures and therefore focuses on the disclosure of information that is '*considered to be of value to investors*' predominantly information that '*affect or have the potential to affect the organization's operational or financial performance, cash flows, customers, brand and achievement of [the company's] strategy, goals and objectives'* (CDSB 2010). As such, climate-change related content is considered by the framework as being material for disclosure where the information '*would influence a reasonable investor in deciding whether to invest or continue to invest in the organization*' (CDSB 2010).

1.1.6 Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative is a coalition of governments, companies, civil society groups, investors and international organizations to set a global standard in the oil, gas and mining industries '*for companies to publish what they pay and for governments to disclose what they receiv*e' (EITI 2009c). The Extractive Industries Transparency Initiative criteria require the '*regular publication of material oil, gas and mining payments by companies to governments ("payments") and all material revenues received by governments from oil, gas and mining companies ("revenues") to a wide audience in a publicly accessible, comprehensive and comprehensible manner*' (EITI 2009b). The publication of such information is expected to be the '*subject of a credible,* *independent audit, applying international auditing standards… reconciled by a credible, independent administrator, applying international auditing standards*' (EITI 2009b). The Extractive Industries Transparency Initiative criteria further require that *'civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate'* (EITI 2009b).

The Extractive Industries Transparency Initiative carries out a validation process at the national government level as the '*quality assurance mechanism*' in order to '*reconcile the figures disclosed by companies and the government and other key stake-holders (including companies and civil society not on the multi-stakeholder group)*' (EITI 2009a).

1.1.7 Sustainable Stock Exchanges Initiative

The Sustainable Stock Exchanges Initiative is '*a forum for exploring how exchanges can work together with investors, regulators, and companies to enhance corporate transparency, and ultimately performance, on ESG (environmental, social and corporate governance) issues and encourage responsible long-term approaches to investment*' (SSEI 2012) convened by the UN-backed Principles for Responsible Investment, the United Nations Conference on Trade and Development, the United Nations Environment Programme Finance Initiative, and the UN Global Compact (SSEI 2012). The initiative appears to primarily target business and financial leaders, along with policy makers and related experts through '*focusing on the roles of investors, stock exchanges, regulators and companies in creating sustainable financial markets*' (SSEI 2012b).

1.1.8 Additional international corporate sustainability reporting instruments to guide development of a global framework on corporate sustainability reporting

There are a number of additional internationally recognized corporate sustainability reporting instruments that (although were not expressly referred to in the dialogue towards a global framework on corporate sustainability reporting in the preparatory process of the Rio +20 United Nations Conference on Sustainable Development) may also guide the development of any future mandatory global framework on corporate sustainability reporting:

1.1.8.1 The greenhouse gas protocol

The greenhouse gas protocol is a partnership between the World Resources Institute, a global environmental think-tank (WRI [2012]), and the World Business Council for Sustainable Development to develop an international standard for corporate greenhouse gas accounting and reporting (GHGP 2011). The greenhouse gas protocol is an accounting tool for quantifying and managing greenhouse gas emissions and comprises calculation tools for calculation of greenhouse gas emissions, corporate accounting and reporting standards and related guidance documents (GHGP 2011), which was *'intended to be useful for both internal management decisions and external evaluations by investors and stakeholders'* (Sotos pers.comm.). The greenhouse gas protocol is considered the international standard for corporate and organizational greenhouse gas accounting in providing the accounting framework foundation for other international greenhouse gas standards including for the International Organization for Standardization's guidance on quantification and reporting of greenhouse gas emissions and removals within its ISO 14000 environmental management standard series, and the Carbon Disclosure Project (GHGP 2011). Although the greenhouse gas protocol promotes independent verification of corporate greenhouse gas inventories, it currently recognizes that '*the practice of verifying corporate [greenhouse gas] is still evolving*' and supports internal assurance processes as providing '*valuable assurance over the reliability of information*' in the absence of, or as a precursor to, commissioning independent third party assurance (WRI and WBCSD 2004) .

The greenhouse gas protocol was developed through a core steering committee of environmental and industry groups following a multi-stakeholder development process including government, industry associations, non-governmental organizations and business (GHGP 2011) and subsequent updates have '*involve[d] an extensive group of stakeholders, almost always internationally diverse unless the scope of the publications dictates otherwise*' (Sotos pers .comm.).

1.1.8.2 International Integrated Reporting Council (IIRC)

The International Integrated Reporting Council (**IIRC**) is promoting the development of a global framework for integrated reporting, which demonstrates the linkages between an organization's strategy, governance, financial performance and the social, environmental and economic context within which the organization operates (IIRC [2012]). The IIRC is seeking to '*bring together the diverse but currently disconnected strands of reporting into a coherent, integrated whole*' to meet the '*needs of investors and other stakeholders*' by '*[guiding] organizations on communicating the broad set of information needed by investors and other stakeholders to assess the organization's long-term prospects*' (IIRC 2012). However, the IIRC's initial focus in developing a global framework for integrated reporting is on '*reporting by larger companies and on the needs of investors*' as the IIRC considers investors to be the primary audience of the integrated report with '*the ultimate objective of other stakeholders are unlikely to be served by corporate reporting that does not allow investors to make better-informed investment decisions*' (IIRC 2012).

The international integrated reporting framework is currently being developed by the IIRC, and will be published following the end of the pilot programme[3] whereby the principals, content and practical application of integrated reporting are being developed, tried and tested by a selection of reporting organizations and institutional investors (IIRC [2012]).

[3] The pilot programme is expected to end in October 2013 (IIRC [2012]).

1.2 *Gaps and weaknesses of the current global framework for corporate sustainability reporting*

The wide variety in content, scope and reliability of current corporate sustainability reports produced under the predominant international corporate sustainability reporting instruments discussed above highlights the gaps and weaknesses in this existing international voluntary corporate sustainability reporting framework. Specifically, the lack of comparability of the content of sustainability disclosures through the variety of reports produced under the existing instruments, the overwhelming emphasis on addressing the interests of business and investor stakeholders in guiding the development and implementation of these existing instruments, and the lack of independent assurance and reliability of corporate sustainability disclosures are highlighted. These are considered the most significant gaps and weaknesses in the existing international corporate sustainability reporting framework as the failure to ensure accessibility to comparable and reliable reports that provide comprehensive and comprehensible information on the social and environmental impacts of corporate activities for analysis and critique by civil society is considered to fundamentally hinder the role of corporate sustainability reporting in seeking to enhance the transparency and accountability of corporate behavior.

Although a number of key areas for corporate sustainability reporting can be identified across the various existing international reporting instruments considered above, which can be considered to constitute the foundations for the content of an existing global framework for corporate sustainability reporting, the extent of specific disclosures addressing the key corporate sustainability reporting indicators varies between the various reporting instruments. The existing global framework on corporate sustainability reporting can however be seen to broadly constitute disclosures addressing labor and human rights, environmental performance and governance ethics. Specifically, the current consensus on the content of corporate sustainability reports were most recently identified by the Global Reporting Initiative in undergoing its public consultation process for revising and updating its existing reporting guidelines (GRI 2012). The Global Reporting Initiative report (2012m) found that of the companies surveyed:

- the main elements of a corporate sustainability report include '*sustainability strategy, governance structure and approach, material impacts, risks and opportunities, material topic indicators and goals related to those indicators*';
- the key material topics for corporate sustainability disclosures are environmental-related topics such as energy and emissions information, community development and enrichment programs, occupational health and safety performance, and ethics and governance topics; and
- the most popular emerging matters for inclusion in future reporting guidelines were business ethics, greenhouse gas emissions, eco-innovation, life cycle assessment, water and biodiversity.

Earlier surveys of corporate reporting conducted by a partnership of KPMG audit, tax and advisory services, the United Nations Environment Programme, the Global Reporting Initiative and the unit for corporate governance in Africa of the University of Stellenbosch Business School, similarly identified the rising importance of 'water and biodiversity' standards as emerging areas of disclosure importance, and noted the increase in climate-change related reporting and standards (KMPG Advisory N.V. *et al*. 2010).

However, this current consensus on the content of corporate sustainability reporting reflects those indicators considered material for disclosure by the business sector, with the Global Reporting Initiative report predominantly reflecting the views of European mediating institutions and business representatives whose participation dominated the survey (GRI 2012). In addition, as the scope of many of the existing corporate sustainability reporting instruments are seen to be largely driven by interested business and industry stakeholders, generally lacking independent assurance to ensure reliability of information, a global framework on corporate sustainability reporting based on these existing international sustainability reporting instruments will achieve little in terms of transparency and accountability of corporate social and environmental activities that allows access to information and justice for civil society with critics of corporate sustainability reporting noting that there is '*no sign of any corporate sustainability reporting for third persons to look at*' (Paul pers.comm.).

These gaps and weaknesses within the content, scope and reliability of the existing global sustainability reporting instruments will therefore need to be addressed in order to ensure that any future development of a global framework on corporate sustainability reporting promotes a comparable disclosure of independently-verified reports addressing the full spectrum of corporate social and environmental impacts that are easily accessible and comprehensible to all stakeholders for evaluating corporate activities. Therefore future policies for a framework on corporate sustainability reporting will need to ensure that they move beyond the focus of business and investor stakeholders, to engage the full spectrum of stakeholders and civil society, in the development and implementation phases of any such framework, and codify independent verification and monitoring of corporate disclosures, to ensure comparable, comprehensible and transparent corporate sustainability reporting.

1.3 Summary of chapter 1

This chapter sought to provide an overview of the existing international corporate sustainability reporting instruments that are being promoted as the benchmarks for the development of a global policy framework on corporate sustainability reporting. Through considering:

- the content of reporting themes promoted for disclosure;
- the scope of stakeholder interests engaged in and driving the development and implementation of each instrument, along with target audience to whom the sustainability reporting disclosures are tailored; and
- the reliability of disclosed information,

the gaps and weaknesses of the existing international voluntary corporate sustainability reporting framework were highlighted. The key gaps and weaknesses of the existing corporate sustainability reporting framework were identified as the lack of comparability and reliability of disclosures produced from the diverse array of reporting standards and guidelines on offer, with the content and scope of current corporate sustainability reporting practices predominantly driven by business and investor interests and lacking in independent verification. Addressing these gaps and weaknesses are considered fundamental in developing a global corporate sustainability reporting framework that promotes transparency and accountability for corporate activities and enhances accessibility to justice by civil society. Therefore, this chapter identifies that future policies towards the development of a global policy framework on corporate sustainability reporting that seeks guidance from the existing international voluntary corporate sustainability reporting framework will need to actively support a broad public consultation process and the inclusion of all stakeholders in its development and implementation phases, along with codifying a process that includes the independent verification of sustainability disclosures and monitoring of related corporate activities.

CHAPTER 2

DIALOGUE TOWARDS A GLOBAL POLICY FRAMEWORK ON CORPORATE SUSTAINABILITY REPORTING AT RIO +20

The concept of a global framework on corporate sustainability reporting was first raised by non-governmental groups ahead of the 2002 World Summit on Sustainable Development (Clapp 2005), including Friends of the Earth International proposing mandatory environmental reporting as part of an international convention on corporate accountability and liability (Friends of the Earth 2005), Greenpeace seeking environmental management accounting and reporting under its proposed Bhopal principals on corporate accountability and liability (Greenpeace 2002) and the Alliance for Democracy seeking obligations on transnational corporations to report on human rights, environment and labour conditions under a legally binding framework for corporate accountability in the form of a convention (The Alliance for Democracy 2002). Although the 2002 World Summit on Sustainable Development failed to adopt such a global framework, it encouraged reporting to '*take into account taking such initiatives as the International Organization for Standardization (ISO) standards and Global Reporting Initiative guidelines on sustainability reporting*' (United Nations 2002).

With the rapid growth of corporate sustainability reporting and array of supporting guidelines and standards in the period since the 2002 World Summit on Sustainable Development, the international dialogue towards a global framework on corporate sustainability reporting was recently reignited with the zero draft outcome document for the Rio +20 United Nations Conference on Sustainable Development calling for '*a global policy framework requiring all* *listed and large private companies to consider sustainability issues and to integrate sustainability information within the reporting cycle*' (UNCSD 2011).

A number of interested stakeholders, including business and industry, civil society and national governments, supported the dialogue for a global policy framework on corporate sustainability reporting and actively promoted the adoption of such a framework in the lead-up to the Rio +20 United Nations Conference on Sustainable Development held in Rio, Brazil from 20-22 June 2012. The support from stakeholders and interest groups for the global policy framework on corporate sustainability reporting varied in terms of the content and form sought for the development of such a framework. The position of those stakeholders that expressly supported the adoption of the framework in the lead-up to the Rio +20 United Nations Conference on Sustainable Development, along with the form and content of frameworks proposed are outlined below:

2.1 Business and industry groups

2.1.1 Corporate Sustainability Reporting Coalition

The Corporate Sustainability Reporting Coalition, convened by Aviva Investors, represents '*financial institutions, professional bodies, non-governmental organizations and investors with assets under management amounting to approximately US$2 trillion*' (Aviva 2012).

The Corporate Sustainability Reporting Coalition called for a commitment to develop a convention on corporate sustainability reporting (Aviva 2012) in order to establish a ‘*global framework requiring boards of all listed and large private companies to consider sustainability issues and to integrate material sustainability information within the reporting cycle, in the Annual report and Accounts – or explain why if they do not*’ (CSRC [2012]).

Specifically, the Corporate Sustainability Reporting Coalition proposed a convention that requires member states to ‘*develop national regulations, formal codes or listing rules [to] encourage the integration of material sustainability issues within the annual report of all listed and large private companies*’ whilst allowing ‘*an opt-out for those companies that elect not to prepare such a report [although] they would be required to explain their rationale to their shareholders, creditors and other stakeholders*’ (Aviva 2012). The Corporate Sustainability Reporting Coalition proposed ([2012]) that the convention:

- establish a report or explain approach to sustainability reporting policy;
- require national measures to mandate the integration of material sustainability issues within the company reporting cycle, in company annual reports and accounts; and
- provide effective mechanisms for investors and stakeholders to hold companies accountable for the quality of their disclosures (for example, through an advisory vote at company annual general meetings).

However, the Corporate Sustainability Reporting Coalition noted ([2012]) that it is not ‘*dictating the form*’ for a global framework on corporate sustainability reporting in order to ‘*provide companies with the freedom to define their own reporting and where they* *determine that it is not necessary, outline why*'. Instead the Corporate Sustainability Reporting Coalition proposed '*a report or explain approach that would set the principal and leave flexibility to national regulators*' ([2012]). The Corporate Sustainability Reporting Coalition proposed a convention that is '*light-handed and procedural, setting out the essential goals and steps needed to introduce widespread corporate sustainability reporting, leaving operational matters to national Governments*' (Aviva [2012]).

According to discussions with Harris Gleckman, representing the Corporate Sustainability Reporting Coalition, this '*interesting hybrid*' of mandatory obligations being sought by the CSRC, which seeks to impose obligations on member States to mandate national corporate sustainability reporting whilst providing companies with the freedom to voluntary elect to report on corporate sustainability issues or explain why the company elects not to report, is necessary to promote the corporate social responsibility conversation within business and initiate strategic thinking of long-term business risks, opportunities and strategies aligned with sustainability (Gleckman pers.comm.). Nonetheless, the Corporate Sustainability Reporting Coalition notes that it is seeking clear standards to be expressed in any such global framework (Gleckman pers.comm.), although the content of these standards has not been specified.

2.1.2 World Business Council for Sustainable Development

The World Business Council for Sustainable Development, a CEO-led organization of more than 200 '*forward-thinking companies … representing all business sectors, all continents and combined revenue of over US$3 trillion*' and '*a network of 60 national* *and regional business councils and partner organizations'* (WBCSD [2012]), together with the International Union of Conservation of Nature (discussed below at 2.2.4), jointly expressed their support for an '*explicit requirement for companies to adopt standardized, rules based sustainability reporting*' (WBCSD 2012).

2.2 Non-governmental organizations

2.2.1 Dialogue on a Convention for Corporate Social Responsibility and Accountability (a partnership of the Stakeholder Forum for a Sustainable Future and Vitae Civilis)

The Dialogue on a Convention for Corporate Social Responsibility and Accountability is a partnership of the Stakeholder Forum for a Sustainable Future (Stakeholder Forum), '*an international organization working to advance sustainable development and promote democracy*' (Stakeholder Forum [2012]) and Vitae Civilis Institute for Development, Environment and Peace, '*a not-for profit, non-governmental organization working to contribute to the construction of sustainable societies through the support given to the participatory implementation of integrated public policies*' (Vitae Civilis 2012).

The Dialogue on a Convention for Corporate Social Responsibility and Accountability lobbied for '*a process which establishes a convention on corporate social responsibility and accountability at the Rio +20 conference*' and provided an on-line forum for a stakeholder–led conversation on corporate responsibility as well as preparing multi-stakeholder discussion papers to develop an idea of how a global framework for corporate social responsibility and accountability would take place (DCCSRA 2012a).

Specifically, the Dialogue on a Convention for Corporate Social Responsibility and Accountability sought a convention on corporate sustainability reporting and accountability that '*implements an international legal framework making sure corporate practices are aligned with sustainable development objectives*' (DCCSRA 2012b), through '*a global policy framework requiring all listed and large private companies to implement sustainability issues into their management and throughout their supply chains, and to integrate sustainability information within the reporting cycle*' (Belinky 2012). According to discussions with Jeannet Lingán of the Stakeholder Forum (Lingán pers.comm.), although the Dialogue on a Convention for Corporate Social Responsibility and Accountability advocated for a mandatory convention on corporate sustainability reporting and accounting, the form for such a convention was not being mandated. Instead the Dialogue on a Convention for Corporate Social Responsibility and Accountability was seeking flexibility within any such international convention to enable each member country to develop the form of corporate sustainability reporting instrument that is best suited to their situation and that will best enable companies operating within their jurisdiction to extend the outreach of their reporting (Lingán pers.comm.). Specifically the Dialogue on a Convention for Corporate Social Responsibility and Accountability promoted that a range of corporate sustainability reporting instruments are supported in the development of a global framework on corporate sustainability reporting in order for national governments to elect those instruments for implementation that are most suitable and likely to be successfully adopted (Lingán pers.comm.).

The Stakeholder Forum submission to the Rio +20 United Nations Conference on Sustainable Development (2011) further suggested that a proposed convention on corporate sustainability reporting would include incentives for companies to '*state in remuneration reports whether the remuneration committee consider ESG factors which are of material relevance to the sustainability and long term interests of the company when setting remuneration of executive directors; aligning remuneration with the interest of the shareholders, including customers and employees*' and that '*companies should be required to present their corporate sustainability [s]trategy to a separate vote at [its] AGM. If no report is to be published a justification for this should be produced and this justification should also be put to a vote*'. The Stakeholder Forum further recommended that such a convention '*draw on experiences and content from the Global Compact, Sustainable Stock Exchanges initiative, Carbon Disclosure Project and the OECD guidelines. Voluntary Initiatives such as the successful ISO 26000 and the Global Report Initiative can provide guidance on the framework necessary to ease the implementation of sustainability reporting*' (Stakeholder Forum 2011).

2.2.2 International Centre of Comparative Environmental Law

The International Centre for Comparative Environmental Law, whose members are legal experts on environmental issues (CIDCE 2010), recommended '*disclosure of corporate balance sheets over the Internet (with comparable data set by States)*' in its submission to the Rio +20 United Nations Conference on Sustainable Development input document (CIDCE 2011).

2.2.3 Institute for Global Environmental Strategies

The Institute for Global Environmental Strategies, established under a Japanese government initiative as an international research institute for sustainable development in the Asia-Pacific (IGES 2012) recommended that '*enterprises should be required to… report on the sustainability impacts of the company through regular annual reporting procedures, using models such as those developed by the Global [R]eporting Initiative*' (IGES 2011).

2.2.4 International Union of Conservation of Nature

The International Union for Conservation of Nature, the '*largest professional global conservation network'* encompassing' *more than 1,200 member organizations'* (IUCN 2012), together with the World Business Council for Sustainable Development (discussed above at 2.1.2), jointly expressed their support for an '*explicit requirement for companies to adopt standardized, rules based sustainability reporting*' (WBCSD 2012). Specifically, the International Union for Conservation of Nature is seeking '*national level policies that require more holistic corporate reporting*' (Seidl pers.comm.)

2.2.5 Global Policy Forum Europe

The Global Policy Forum Europe, an independent policy watchdog that scrutinizes global policy making (GPF 2012) promoted '[*m*]*andatory country-by-country reporting standards for transnational corporations, with the US American Dodd-Frank Wall Street*

Reform and Consumer Protection Act (Dodd-Frank Act) from July 2010 as an initial step for the extractive industries' (GPFE 2011).

2.2.6 Global Reporting Initiative

The Global Reporting Initiative, previously outlined in chapter 1 at 1.1.1, supports the '*practical measure*' of '*adopting a policy framework on sustainability reporting based on the report or explain approach*' (GRI 2011). Reflecting the calls of Corporate Sustainability Reporting Coalition and the Dialogue on a Convention for Corporate Social Responsibility and Accountability (discussed above at 2.1.1 and 2.2.1), the Global Reporting Initiative also called for development of '*a global policy framework requiring all listed and large private companies to consider sustainability issues and to integrate material sustainability information within the reporting cycle, in their Annual Report and Accounts – or explain why if they do not*' (GRI 2011). The policy framework supported by the Global Reporting Initiative noted that it '*can take the form of a Convention*' and '*adhere to three key principle*s' being *'Report or Explain – establish a report or explain approach to sustainability reporting policy; Transparency – enhance transparency by requiring national measures which would mandate the integration of material sustainability issues within the company reporting cycle, in their Annual Report and Accounts; [and] Accountability – provide effective mechanisms for investors and all stakeholders to hold companies to account on the quality of their disclosures, including for instance an advisory vote at the Annual General Meeting (AGM)'* (GRI 2011).

2.3 Multi-stakeholder representatives

2.3.1 The Green Economy Coalition

The Green Economy Coalition includes organizations and sectors from non-governmental organizations, research institutes, United Nations organizations, business and trade unions seeking to 'accelerate the transition to a green economy' (GEC 2011b).

The Green Economy Coalition's called for a requirement '*on all large private and public enterprises … to internalize all external costs, and report on their environmental and social impacts and contribution to wellbeing, or explain why they do not*' (GEC 2011a).

The Green Economy Coalition proposal mirrors the Corporate Sustainability Reporting Coalition, the Dialogue on a Convention for Corporate Social Responsibility and Accountability and Global Reporting Initiative proposals (discussed above at 2.1.1, 2.2.1 and 2.2.6), in proposing the development of '*a global policy framework that requires all listed and large private companies to consider sustainability issues and to integrate material sustainability information within their reporting cycle, and in their Annual Report and Accounts – or explain why if they do not'* (GEC 2011a). The form of the convention proposed by Green Economy Coalition replicates the Corporate Sustainability Reporting Coalition proposal (discussed at 2.1.1).

2.3.2 Women's major group

The women's major group input to the zero draft document of the Rio +20 United Nations Conference on Sustainable Development recommended '*all private and public* *companies report on their social and economic impact, – including gender impact – if not voluntary, then through legally binding regulations*' and that '[*l]egally binding regulations for corporate [s]ocial [r]esponsibility reporting should ensure that "green-washing" is eliminated*' (Women's Major Group 2011).

2.3.3 Asia-Pacific major groups and stakeholders workshop

Whilst not expressly referring to corporate sustainability reporting, the submission from the Major Groups and Stakeholders Asia Pacific Meeting 2011 identified '*[r]egulation at the international, regional and national levels with effective enforcement mechanisms to ensure corporate social responsibility, accountability and transparency*' as a regional priority (Asia-Pacific major group 2011).

2.4 National governments

2.4.1 Botswana

The Botswana government supported the vision whereby '*accountability of all stakeholders is improved, through transparent information on resource stocks, flows and damages and a robust legal framework*' (Botswana 2011).

2.4.2 Brazil

The Brazilian government supported an initiative designed to expand the publishing of sustainability reports '*whereby state-run companies, development banks, sponsors of private pension funds, open capital companies and large corporations could publish* *complete, timely and objective reports on their activities that, in addition to the usual economic-financial aspects, must include information on their social and environmental performance and corporate governance'* (Brazil 2011).

2.4.3 Egypt

The Egyptian government noted '*the importance of developing standards of corporate responsibility and accountability for transnational corporations in order to make sure that such corporations support local efforts in achieving [s]ustainable development*' (Egypt 2011) .

2.4.4 Mexico

The Mexican government promoted '*implementation of environmental conventions to promote the effective enforcement of existing standards and guidelines on the environment and on social responsibility, such as ISO 26000 on social responsibility, ISO 9000 on quality management in general and ISO 14000 on environmental management in particular*' (Mexico 2011).

2.4.5 Norway

The Norwegian government supported '*[c]onsolidation of existing business reporting systems, such as Global Reporting Initiative, Extractive Industries Transparency Initiative and country-by-country reporting into one framework, encouraging transparency and consistency*' (Norway 2011).

2.4.6 Russian Federation

The Russian Federation supported '*[m]ajor transnational companies must demonstrate their leadership in social and environmental responsibility of business through periodic reporting on the implementation of plans for increased sustainability. Uniform standards must be developed (similar to ISO standards) to ensure transition to sustainable global economy phased for different levels of development. The governments should encourage the introduction of non-financial reporting standards in business practice to disclose the activity of companies in the sphere of environment protection and social partnership*' (Russian Federation 2011).

2.5 Multi-state coalitions

In addition to the individual state submissions supporting corporate sustainability reporting, the coalition of the G77 and China supported '*adequate regulation of … corporations by policy frameworks to be implemented by governments. These frameworks must guide corporate practices towards environmental, social and developmental objectives*' (G77 and China 2011), whilst the European Union and its member states suggested "*integrating physical and monetary natural capital values in accounting and reporting systems at national and international level (e.g. System of Environmental and Economic Accounting (SEEA), ecosystem accounting, economic and social progress reports, accounting and reporting rules for businesses*" (EU 2011).

2.6 United Nations organizations

2.6.1 United Nations Department of Public Information

The United Nations Department of Public Information called for '*a framework convention on corporate environmental and social responsibility… for the accountability of corporate investments for all companies listed on stock exchanges worldwide and take into account the ISO 26000 standard on corporate accountability*' (UN DPI 2011).

As the United Nations Department of Public Information was established to promote the global awareness and understanding of the work of the United Nations, and its mission is '*dedicated to communicating the ideals and work of the United Nations to the world*' (UN DPI [2012]), the Department's express support for such a framework can be interpreted as the overall support of the collective United Nations organization for international regulation of corporate accountability.

2.6.2 United Nations Development Programme

The United Nations Development Programme promoted the '*development of an international accounting standard that would require multinational companies to report sales, profit and taxes on a country-by-country basis in all the jurisdictions in which they operate*' (UNDP 2011).

2.6.3 United Nations Environment Programme

The United Nations Environment Programme encouraged the conference to consider that '*all companies… adopt corporate sustainable principles based on UN conventions and agreements, as advanced by the United Nations Global Compact, and requiring a 'comply or explain' approach to sustainability reporting and the application of standardized environmental, social and governance criteria in financial decision-making*' and '*using established reporting frameworks such as the as the Global reporting Initiative*' (UNEP 2011).

2.6.4 United Nations Global Compact

The UN Global Compact office encouraged the development of '*a global policy framework for business to disclose sustainability information following uniform parameters in their annual financial reports or other reports – or explain why they do not'* (UN GC 2011a).

2.7 Scope of support for a global framework on corporate sustainability reporting

Despite the broad support for a global framework on corporate sustainability reporting coming from business and industry groups, non-governmental organizations, multi-stakeholder representatives, national governments and various United Nations organizations in the preparatory process of the Rio +20 United Nations Conference on Sustainable Development, the form of support for such a global framework is in essence quite narrow.

As identified by Jeannet Lingán of the Stakeholder Forum (Lingán pers.comm.) the dialogue for a global framework on corporate sustainability reporting can be summarized into three proposals:

1. an international convention on corporate sustainability reporting being supported by the Corporate Sustainability Reporting Coalition and the Global Reporting Initiative;
2. an international policy framework on corporate sustainability reporting as included in the draft outcome document for the Rio +20 United Nations Conference on Sustainable Development; and
3. continued support and encouragement for voluntary approaches to corporate sustainability reporting, representing the position of the private and business sectors.

As illustrated from the various statements of support from interested stakeholders in the preparatory process for the Rio +20 United Nations Conference on Sustainable Development outlined in this chapter, the support for a global framework on corporate sustainability reporting generally falls within the first two proposals. The common thread that is seen through the statements of support for a global framework on corporate sustainability reporting is for a legally-binding instrument that adopts an international, standardized framework, with submissions calling for either an international convention or a policy framework that builds upon existing voluntary international sustainability reporting instruments and mechanisms to incorporate the disclosure of sustainability information into current financial reporting cycles of corporations.

Those stakeholders that appear to be most active in expressly supporting the development of a global framework on corporate sustainability reporting by actively advocating for such a framework and providing the greatest input into the current debates for its proposed form and content appear to come from those business and industry stakeholders with vested interests in the initiative, which are further supported by aligned non-governmental organizations. Specifically the:

- the Corporate Sustainability Reporting Coalition (refer to 2.1.1), an investor-led coalition who promoted the '*business strategy*' of '*embedding long-term sustainability*' and '*fully disclosing their progress to investors*' (Aviva 2011). As was identified by the Corporate Sustainability Reporting Coalition representative, the investor community is concerned with the risks that may arise from sustainability issues, and are looking for confirmation that companies are equipped to tackle future challenges as well as the opportunities that may arise from long-term sustainability (Gleckman pers.comm.);
- the Dialogue on a Convention for Corporate Social Responsibility and Accountability (refer to 2.2.1) includes participants from a range of stakeholders including the investment and banking industry such Aviva Investors and the HSBC Banking Group, existing global reporting instruments such as the Global Reporting Initiative and the International Organization for Standardization, not for profit organizations such as Friends of the Earth and World Wildlife Fund and the United Nations Environment Program Finance Initiative (DCCSRA 2012b); and
- the Global Reporting Initiative (refer to 1.1.1 and 2.2.6), representing the existing leading international sustainability reporting standard.

These stakeholders were actively engaged in conferences, side-events and advocating for the adoption of a global framework on corporate sustainability reporting in the preparatory process of the Rio +20 United Nations Conference on Sustainable Development[4]. However, within their active sphere of support for a global framework on corporate sustainability reporting, these stakeholders were predominantly promoting the ‘report or explain’ approach which supports a global framework that codifies an ‘opt-out’ approach for business and industry by fostering an option for non-disclosure. This ‘report or explain’ approach to corporate sustainability reporting is analyzed in greater detail in chapter 3.

However, critics of the ‘report or explain’ model for corporate sustainability reporting identify that there is ‘*no alternative proposal*’ (Paul 2012) being debated in this current dialogue promoting the global corporate sustainability reporting framework, with opposition of the ‘report or explain’ model and alternative proposals for corporate sustainability reporting being notably scant within the current discourse. Despite the Dialogue on a Convention for Corporate Social Responsibility and Accountability promoting a stronger model for a convention on corporate social responsibility and accountability (refer to 2.2.1), their support for the ‘report or explain’ model for a global corporate sustainability reporting framework appears to have overshadowed this alternative proposal. In addition, a number of actors previously active in their support for corporate sustainability reporting initiatives appear notably absent from the current discourse on a global framework for corporate sustainability reporting. For example, those non-governmental organizations that had initiated calls for an international convention on corporate accountability

[4]As examples, the Dialogue on a Convention for Corporate Social Responsibility and Accountability, Aviva Investors and the Global Reporting Initiative together hosted the ‘International framework for corporate social responsibility: moving to action’ side event on 27 March 2012 (DCCSRA 2012b). In addition, Global Reporting Initiative hosted a number of events at the Rio +20 Corporate Sustainability Forum, an invitation-only event hosted by the United Nations Global Compact from 15-18 June 2012 (GRI [2012k]; UN GC 2012)

ahead of the Johannesburg World Summit on Sustainable Development in 2002, specifically Friends of the Earth International which published proposals for an international convention on corporate accountability and liability (Friends of the Earth 2005) and Greenpeace which presented its Bhopal principles on corporate accountability and liability promoting greater control, monitoring and accountability for corporate activities (Greenpeace 2002) have been somewhat silent in the current dialogue for a global framework for corporate sustainability reporting. Although Friends of the Earth is a participant in the Dialogue on a Convention for Corporate Social Responsibility and Accountability (DCCSRA 2012b) and Greenpeace has united with a number of civil society organizations in jointly calling for '*a global framework of rules to strengthen corporate reporting on social and environmental impacts worldwide, consistent with the Rio Principals, the Universal Declaration of Human Rights, and encompassing the full range of impacts associated with corporate activities*' (Oxfam *et al*. 2012), these organizations do not appear to be expressly lobbying towards a strengthened corporate sustainability reporting framework. Instead, these stakeholders are promoting initiatives towards a global framework on corporate sustainability reporting under the broader policy umbrella of addressing the '*corporate capture of the United Nations*' in seeking to limit the excessive influence of multinational corporations on United Nations decision-making through measures including the proposal to '*establish a legally binding framework of obligations to hold companies accountable to environmental, human rights and labour rights law. This should include an obligation for companies to report on their social and environmental impacts'* (FOEI 2012a).

The relatively little attention being paid to the proposal for a framework on corporate sustainability reporting by civil society were considered by Helena Paul of ExoNexus, a not-for profit public interest research organization that analyses science and technology developments and their impacts on the environment and society[5] (EcoNexus [2012]), as potentially arising from the diversion of the focus of current debates and discourse towards more contested and ambiguous issues such as the 'green economy' principals, and broader concerns of civil society arising from current economic downturn conditions which may restrict willingness to directly challenge corporate behavior amidst fears of 'frightening off investment' (Paul pers.comm.). In addition, leading civil society activists are steering their focus away from promoting specific initiatives such as corporate sustainability reporting towards addressing the broader concerns of 'corporate capture' and the influence of the major organizations and business groups on public institutions and government decision-making (FOEI 2012a).

2.8 Development of negotiations and the Rio + 20 outcome document

Negotiations of the proposal for global policy framework addressing sustainability reporting at the Rio +20 United Nations Conference on Sustainable Development saw participating States and Government representatives adopt an approach promoting 'encouragement' rather than regulation in the final outcome document of the Rio +20 United Nations Conference on Sustainable Development, stating:

[5] including examining '*the influence of transnational corporations and market approaches on development issues and scientific, social and economic and political processes*' (EconNexus [2010]).

'*We acknowledge the importance of corporate sustainability reporting and encourage companies, where appropriate, especially publicly listed and large companies, to consider integrating sustainability information into their reporting cycle. We encourage industry, interested governments and relevant stakeholders with the support of the United Nations system, as appropriate, to develop models for best practice and facilitate action for the integration of sustainability reporting, taking into account experiences from already existing frameworks and paying particular attention to the needs of developing countries, including for capacity building'* (paragraph 47) (UN 2012).

Although this agreement was considered by critics to be '*totally weak*' (Paul pers.comm.) and '*fall short of our expectations*' with '*no compulsion, no commitment towards integrated accounting*' and '*no … [United Nations] process to implement*' (Howitt 2012), the success of the European Union led campaign to address corporate sustainability reporting within the final outcome document of the Rio +20 United Nations Conference on Sustainable Development, along with the support of France, Denmark, Brazil and South African governments in forming a 'friends of paragraph 47' partnership towards advancing corporate social responsibility reporting (Kaye 2012), was reported as nonetheless providing '*the visibility and political profile to still advance towards our aim of a global agreement for global reporting*'(Howitt 2012).

2.9 Summary of chapter 2

This chapter sought to outline the position of stakeholders and interest groups supporting the adoption of a global framework on corporate sustainability reporting within the context of the

Rio +20 United Nations Conference on Sustainable Development discourse, and analyze the scope and content of this dialogue.

As illustrated by this chapter, although there appeared to be broad support from a wide variety of stakeholders including business and industry, civil society and national governments ahead of the Rio +20 United Nations Conference on Sustainable Development for a '*a global policy framework requiring all listed and large private companies to consider sustainability issues and to integrate sustainability information within the reporting cycle*', such support seemed to be predominantly driven by interested investor and industry stakeholders who were supported by a limited number of civil society organizations that were in turn supported by these interest groups. This collection of active stakeholders support an initiative that largely promotes a flexible 'report or explain' model which enables corporations to elect to report on corporate sustainability issues or, in the alternative, provide an explanation for their election not to do so (as discussed in greater detail in chapter 3). The recent negotiations of the Rio +20 United Nations Conference on Sustainable Development however saw the international community adopt an even weaker approach to corporate sustainability reporting, with the final outcome document doing little more than to encourage business to 'consider' the adoption of corporate sustainability reporting.

This chapter therefore illustrates that the dialogue towards a global framework on corporate sustainability reporting is in essence quite narrow, with broader engagement by a wider sector of stakeholders in the corporate sustainability debate and discussions of various models and proposals for such a framework limited to those promoted by the most active stakeholders; the Corporate Sustainability Reporting Coalition, the Dialogue on a Convention for Corporate Social Responsibility and Accountability and the Global Reporting Initiative. The Global Reporting

Initiative currently appears to be the key interested stakeholder leading the initiative towards a global framework on corporate sustainability reporting being a part of the Corporate Sustainability Reporting Coalition, the Green Economy Coalition as well as the participant of the Dialogue on a Convention for Corporate Social Responsibility and Accountability. This narrow dialogue appears to have arisen from the lack of active engagement by broader civil society and interest groups in the current discourse promoting a global corporate sustainability reporting framework, thereby enabling this niche of active stakeholders to guide the current dialogue.

This chapter works to builds upon the earlier discussions of chapter 1 in illustrating that not only are the existing international voluntary corporate sustainability reporting instruments, and hence the existing global voluntary framework on corporate sustainability reporting, being predominantly driven by business and investor interests, but that the current impetus of the dialogue promoting a global policy framework on corporate sustainability reporting is equally driven by a small niche of interested investor and industry stakeholders. Therefore this chapter illustrates that the current dialogue towards a global framework on corporate sustainability reporting will also need to move beyond the narrow proposals being actively promoted by the niche of self-interested stakeholders towards a much broader consideration of the role and scope of sustainability reporting in achieving transparency and accountability of corporate activities. Such policies will therefore need to seek to engage the full spectrum of stakeholders and civil society in developing and implementing any future framework on corporate sustainability reporting in order to develop a comprehensive and comprehensible framework on corporate sustainability reporting framework that seeks to promote transparency and accountability of corporate activities.

CHAPTER 3

VISION FOR A GLOBAL MANDATORY FRAMEWORK ON CORPORATE SUSTAINABILITY REPORTING

This final chapter analyzes the vision for a global mandatory framework on corporate sustainability reporting by considering the dominant proposal being promoted by key stakeholders in the context of the Rio +20 United Nations Conference on Sustainable Development (discussed in chapter 2) which promotes a 'report or explain' approach to be based on the Global Reporting Initiative's sustainability framework.

This final chapter seeks to build on the discussions in the preceding chapters by suggesting further mechanisms for addressing the gaps and weaknesses in the current dominant proposal for a global framework on corporate sustainability reporting in order to guide the future development of such framework towards one that enhances the transparency and accountability of corporate activities.

3.1 The report or explain approach to mandatory reporting

As illustrated in chapter two, the 'report or explain' approach to a global mandatory corporate sustainability reporting framework is being actively promoted by stakeholders such as the Corporate Sustainability Reporting Coalition, the Global Reporting Initiative and the Dialogue for a Convention on Corporate Social Responsibility and Accountability, as well as the United

Nations[6]. This report or explain approach is being supported by these stakeholders as allowing (Fogelburg 2012):

- flexibility in enabling companies to elect whether to report on sustainability issues, and if so, the choice of reporting frameworks and disclosure indicators; and
- flexibility for national governments in introducing the 'report or explain' principals through regulation, mandatory measures or stock exchange listing rules.

As noted by Jeannet Lingán of the Stakeholder Forum (Lingán pers.comm.), a flexible form of corporate sustainability reporting is being supported to enable successful adoption at local levels, in order to allow for varying local situations and enable national governments to adopt an approach that is best suited to the business operations and reporting systems operating within their jurisdictions. In addition, the Corporate Sustainability Reporting Coalition considers that it '*would be a mistake … to create a one-size-fits-all approach specifying the key performance indicators for individual sector*' (Aviva [2012]) and not possible to '*craft a regulation that specifies a sufficiently detailed reporting template on the rich diversity of corporation around the world*' (Aviva [2012]), as '*proposing heavy handed regulation that tries to enforce one reporting template*' is not possible '*because regulation is often slow moving, lags the market and encourages a minimum compliance mentality within the company*' (CSRC [2012]).

[6] The United Nations Secretary General addressed business community leaders at the KPMG Summit 'Business perspective for sustainable growth' and called for the business community to '*heed the call of a new generation of investors by publicly reporting on sustainability performance' and 'work together to forge a global policy framework for disclosing such information – and for explaining why companies do not*' (UN News Centre 2012).

However, although the flexibility of a global corporate sustainability reporting framework is considered by advocates of the 'report or explain' approach as essential towards ensuring successful implementation at local levels, the 'report or explain' approach being proposed for a mandatory framework for corporate sustainability reporting appears to subrogate the purpose of a mandatory corporate sustainability reporting framework and would appear to do little to enhance corporate transparency and accountability. Critics of the 'report or explain' approach consider that such a proposed model for a global corporate sustainability reporting framework will '*provides no means for "stakeholders" to take action if they did not accept the rationale of the company for declining to report*' whilst making it clear that '*states would not be invited to enforce compliance*' (Paul 2012). Such proposal is considered to '*leave power firmly in the hands of the corporations… It would not help to redress the injustice and imbalance of power that makes it so difficult for people and communities to complain redress for damage done by corporations … [it] would not help to address any of these, nor would it help to construct mechanisms whereby people could seek redress and actually see justice done*'. (Paul 2012)

The implementation success of a 'report or explain' approach to corporate sustainability reporting has received little academic attention to date. Although the 'report or explain' approach to corporate sustainability reporting has been adopted by legislature in both the Denmark and the Johannesburg stock exchanges (GRI [2012i]), research studies addressing the effectiveness of these initiatives on sustainability disclosures of businesses have been limited. Studies considering the Danish Financial Statements Act of 2008, which requires identified categories of businesses to report on corporate social responsibility matters in their annual report on a 'comply or explain basis', noted the 'positive effect' on corporate social responsibility activities of businesses (Danish Commerce and Companies Agency 2010) despite identifying that '*a majority of the businesses reporting in accordance with the wording of the legal requirement have chosen to comply with it, although providing only a minimum of information and short descriptions*' (Danish Commerce and Companies Agency 2010). With recent research by Iannou and Serafeim (2011) addressing sustainability reporting across 58 countries identifying that mandatory sustainability reporting promotes socially responsible managerial practices as the disclosure of sustainability information '*forces companies to manage these matters effectively in order to avoid having to disclose bad [environmental social governance] performance to their multiple shareholders*', this suggests support for a more rigorous mandatory reporting approach that prevents companies electing not to disclose 'bad' sustainability performance.

However, amidst the administrative burden that a global mandatory reporting requirement proposes to impose, the 'report or explain' model is largely promoted by advocates as enabling flexibility in reporting to be adopted and tailored to the wide variety of business and operating systems, with studies of the Danish Financial Statements Act of 2008 by the Danish Commerce and Companies Agency (2010) noting that companies were '*appreciat[ive of] the freedom of choice and flexibility provided by the [explain or comply] legal requirement as this allow the individual business to adapt the report to their particular context*'. Maintaining flexibility in the form of reporting does not, however, necessarily preclude mandating compulsory disclosures. In addition, with concerns over the comparability of current sustainability disclosures driving the promotion for a global policy framework on corporate sustainability reporting, the flexibility in disclosures under the 'report or explain' model would appear to do little towards producing comparable corporate sustainability reports. Therefore it is suggested that a global framework on corporate sustainability reporting could adopt a mandatory approach to reporting that embraces levels of flexibility in terms of the content of various reporting indicators applicable to different business sectors and operations, whilst maintaining an overall consistent and comparable global reporting standard. The principal of 'complementarity' in combining voluntary and mandatory approaches that provide a more active role for regulators in terms of raising the bar for minimum reporting requirements, whilst encouraging voluntary disclosure that goes beyond these minimum mandatory requirements, has already been recommended by the partnership of KPMG audit, tax and advisory services, the United Nations Environment Programme, the Global Reporting Initiative and the unit for corporate governance in Africa of the University of Stellembosch Business School in surveying approaches and global trends to corporate sustainability reporting (KPMG *et al.* 2010).

Although critics of the 'report or explain' approach are calling for a '*strong, independent, binding, global instrument to regulate corporate power*' which '*take[s] decisions about [the corporation's] role, size, powers, privileges, structures, rights and the changes required to properly balance the rights of the corporate legal person with those of natural persons (people)*' (Paul 2012), current discourse is considered to be moving away from the development of a binding legal convention on corporate sustainability reporting (Bertazzi pers.comms.). Such discourse, however, as highlighted in chapter 2, is being led by those stakeholders actively advocating for the 'report or explain' approach to corporate sustainability reporting, notably the Global Reporting Initiative and the investor industry, whose self-interests in seeking to increase existing reporting practices would suggest a benefit from adopting this collaborative approach towards sustainability reporting and aligning with the business and corporate sector to support the flexible and voluntary 'report or explain' approach to corporate sustainability reporting.

Discussions with the business sector have noted that the adoption of such a 'report or explain' model will stimulate the corporate sustainability reporting conversation as companies are forced to address the question of whether to report on corporate sustainability matters or to consider their explanation for electing not to do so (Tomita pers.comms.). Such conversations are still lacking with the number of companies publishing sustainability reports considered '*small*' (KPMG *et al*. 2010) with only 5,162 of companies from approximately 63,000 companies across 61 different countries surveyed as releasing a sustainability report in 2010 (Ioannou and Serafeim 2012). Mandating such conversations, albeit in a flexible form, may therefore lead to greater corporate sustainability reporting and consideration of sustainable corporate behavior in any event. In the absence of an alternative approach within the current discourse, the adoption of a report or explain model to corporate sustainability reporting may, at the first instance, act to set the groundwork and pave the way towards more stringent requirements in the future. However, care will need to be taken in any future policies towards developing a global framework on corporate sustainability reporting based on the 'report or explain' approach to ensure broad stakeholder consultation and public participation in order to restrict elections to 'opt-out' of sustainability disclosures from being widely practiced by the corporate sector, with detailed explanations required by those companies choosing not to report being made widely accessible for critique by all stakeholders.

3.2 The Global Reporting Initiative sustainability reporting framework as the international reporting standard

The Global Reporting Initiative sustainability reporting framework (as outlined in chapter 1 at 1.1.1) is largely recognized as the leading international standard on corporate sustainability reporting, with research identifying that 77 percent of the top 250 global companies release sustainability reports using the Global Reporting Initiative's framework (KPMG *et al*. 2010). The Global Reporting Initiative is also considered the benchmark for sustainability reporting by other existing international corporate sustainability reporting instruments. For example, the Global Reporting Initiative is explicitly identified by the OECD Guidelines for multinational enterprises as a useful reference for reporting standards and as an example of reporting standards being developed through the cooperation between enterprises, non-governmental organizations and intergovernmental organizations (OECD 2011). The Global Reporting Initiative, in turn, has formed a strategic alliance with the United Nations Global Compact to provide guidance on transparency and reporting of the United Nations Global Compact principles (UN GC 2006) and has worked in partnership with the United Nations Environment Programme Finance Initiative (UNEP FI) to develop the revised financial services sector supplement that is recognized by UNEP FI as being '*expected to develop into the standard for reporting on sustainability performance of financial products and services*' (UNEP FI [2012]).

In addition to the Global Reporting Initiative's active support for the development of a global mandatory framework on corporate sustainability reporting based on the 'report or explain' model, as discussed in chapter two, the Global Reporting Initiative also appears to be actively positioning itself to become the leading instrument and the focal organization in any future development of a global framework on corporate sustainability reporting. In its submission statement to the preparatory process of the Rio +20 United Nations Conference on Sustainable Development, the Global Reporting Initiative stated that it is the '*leading global framework for sustainability reporting*' in '*using a common framework [that] can promote international comparability between reports*' (GRI 2011a). In addition, the Global Reporting Initiative appears to be seeking to complement and supplement the other existing international voluntary instruments addressing corporate sustainability reporting by:

- releasing a document titled '*GRI and ISO 26000: How to use the GRI Guidelines in conjunction with ISO 26000*' detailing how the Global Reporting Initiative guidelines complement the ISO 26000 standard and providing detailed guidance for how the Global Reporting Initiative guidelines can be used to produce a sustainability report on the social responsibility topics addressed by ISO 26000 (GRI 2011a); and
- developing its next generation of sustainability reporting guidelines, the G4 guidelines, the Global Reporting Initiative is seeking to support the development of the international integrated reporting framework by the International Integrated Reporting Council and '*provide companies with a stepping stone towards integrated reporting and, in the context of the IIRC's framework, help users formulate content for integrated reports*' (GRI [2012j]).

In positioning itself to become the preferred form for a global framework on corporate sustainability reporting, the Global Reporting Initiative is actively campaigning for the 'report or explain' approach to reporting[7] whilst promoting the comparability of reports based on its sustainability framework. However, the Global Reporting Initiative is highly vested in the adoption of a global framework on corporate sustainability reporting based on its sustainability reporting framework with the increase in reporting activity expected to flow from such policies.

Despite the final outcome document of the Rio +20 United Nations Conference on Sustainable Development failing to adopt a global policy framework on corporate sustainability reporting, industry, governments and stakeholders were nonetheless encouraged to develop best-practice models and integrate sustainability reporting by '*taking into account experiences from already existing frameworks*' (UN 2012). Reports have noted that as more detailed policies addressing global corporate sustainability reporting develop into the future, *'one winner is clear … GRI, which has already become the global sustainability reporting standard, will become even more of a force behind the increase of more sustainable business practices in the coming years'* (Kaye 2012).

The current weaknesses of the Global Reporting Initiative's sustainability reporting framework in terms of the business interests guiding the development and implementation of its reporting guidelines, along with the lack of independent verification and reliability of disclosures were identified in chapter one, and the strong alignment of Global Reporting Initiative with the investor community in supporting the 'report or explain' model to corporate sustainability reporting was identified in chapter two. Therefore any future policies towards developing a

[7] The Global Reporting Initiative has convened a 'report or explain campaign forum' to '*advance mainstreaming environmental, social and governance disclosure*' (GRI [2012]).

global framework on corporate sustainability reporting will need to entrench broad stakeholder engagement and public participation in its development and implementation phases, to ensure that corporate sustainability disclosures move beyond the current focus of alleviating the risk evaluation concerns of the investor stakeholders and increasing reporting activities for the Global Reporting Initiative, and instead seeks to enhance transparency and accountability of corporate behavior and activities in order to '*help redress the injustice and imbalance of power that make it so difficult for people and communities to claim redress for damage done by corporations*' (Paul 2012).

3.3 Summary of chapter 3

This final chapter sought to analyze the dominant proposal for a mandatory global framework on corporate sustainability reporting arising within the current dialogue surrounding the Rio +20 United Nations Conference on Sustainable Development, which promotes the 'report or explain' approach to corporate sustainability reporting based on the Global Reporting Initiative's sustainability framework.

In building on the discussions of chapters one and two, which highlighted the gaps and weaknesses of the existing international voluntary corporate sustainability reporting framework and the current dialogue promoting the development of a global framework on corporate sustainability reporting based on this framework, this chapter further identified that the dominant 'report or explain' proposal for a global mandatory framework on corporate sustainability reporting is equally being driven by the same sector of interested investor and industry stakeholders. These industry and business stakeholders, identified in chapters 1 and 2 as driving the development and focus of the existing international voluntary framework for corporate sustainability reporting and the current dialogue towards a global framework on corporate sustainability reporting, are supporting the development of a mandatory global framework on corporate sustainability reporting which codifies flexibility for the business sector in enabling companies to elect whether to disclose sustainability information under the ‘report or explain’ approach, whilst seeking to promote that elections to report under the framework are based on existing reporting instruments, predominantly guided by the Global Reporting Initiative sustainability reporting framework. This ‘report or explain’ proposal for a global mandatory framework on corporate sustainability reporting preserves maintaining voluntary and flexible sustainability reporting practices whilst simultaneously promoting the interests of the Global Reporting Initiative in proposing a global reporting standard based on its sustainability reporting framework. Therefore, this chapter suggests that the development of a future global framework on corporate sustainability reporting based on this ‘report or explain’ approach will further enhance the focus of existing reporting practices and the current dialogue in seeking to increase reporting activity that addresses the risk evaluation needs of investment stakeholders, as opposed to addressing transparency and accountability of corporate activities for social and environmental impacts.

Critics of the current proposals for a framework on corporate sustainability reporting note that “[*corporate social responsibility] is voluntary and is controlled by the corporations themselves. It is not monitored or verified by any independent body. It is therefore no substitute for a binding international instrument*’ (Paul 2012). With the benefit to corporate social and environmental behavior that a stronger independent approach to corporate sustainability reporting such as through the adoption of a global framework requiring mandatory reporting having already been illustrated by Ioannou and Serafeim (2011), the need for a reliable, consistent and comparable corporate sustainability reporting framework that allows for the transparency of corporate social and environmental activities, and enhances corporate accountability and accessibility to justice by civil society, supports the development of a standardized mandatory global framework for corporate sustainability reporting addressing a broader spectrum of social and environmental disclosures. It is proposed that such framework could seek to build upon the existing foundations set by the global voluntary corporate sustainability reporting framework discussed in chapter one, by engaging a wide public participation process to move the current dialogue discussed in chapter two, and the proposed model for a global mandatory corporate sustainability reporting framework discussed in this chapter, towards developing a more comprehensive and comparable mandatory global framework on corporate sustainability reporting.

CONCLUSION

This thesis paper analyzed the existing discourse promoting the development of a global framework on corporate sustainability reporting within the current dialogue of the Rio +20 United Nations Conference on Sustainable Development and the path towards a global framework on corporate sustainability reporting. This thesis paper:

- identified the key gaps and weaknesses within the existing voluntary international corporate sustainability reporting instruments that are being highlighted as laying the foundations for the future development of a global framework on corporate sustainability reporting, as the lack of comparability and reliability of disclosures produced from the diverse array of reporting standards and guidelines on offer, with the content and scope of current corporate sustainability reporting practices predominantly driven by business and investor interests and lacking in independent verification;
- outlined the position of stakeholders and interest groups supporting the adoption of a global framework on corporate sustainability reporting within the context of the Rio +20 United Nations Conference on Sustainable Development discourse, and analyzed the scope and content of these proposals in illustrating that the current impetus of the dialogue promoting a global policy framework on corporate sustainability reporting is predominantly driven by a small niche of interested investor and industry stakeholders; and
- analyzed the dominant model being proposed for a mandatory global framework on corporate sustainability reporting being actively promoted by key stakeholders in the

current discourse promoting a ‘report or explain’ approach to corporate sustainability reporting based on the Global Reporting Initiative’s sustainability framework.

This thesis paper therefore identified the key gaps and weaknesses within the existing discourse promoting the development of a global policy framework on corporate sustainability reporting, as being the narrow focus of existing corporate sustainability reporting instruments and impetus of the current dialogue towards sustainability disclosures that appease the risk evaluation concerns of investor stakeholders whilst lacking in public and civil society engagement and independent verification to promote corporate sustainability reporting that enhances corporate transparency and accountability.

This thesis paper additionally suggested mechanisms for addressing the gaps and weaknesses in the current path leading towards a global framework on corporate sustainability reporting, specifically that future policies to develop a global framework on corporate sustainability reporting will need to actively support a broad public consultation process and the inclusion of all stakeholders in development and implementation phases, along with codifying a process that includes the independent verification of sustainability disclosures and monitoring of related corporate activities. It is considered that only through a wide public participation process and broad civil society engagement that existing corporate sustainability reporting practices, and the current path towards a global framework on corporate sustainability reporting, can move from seeking to predominantly alleviate the risk evaluation needs of investor interests towards a comprehensive and comparable framework on corporate sustainability reporting framework that seeks to promote transparency and accountability of corporate activities, and ultimately enhances accessibility to justice by civil society.

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