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The Role of Sustainability Reports in Investment Analysis

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Abstract

Purpose – To present a comprehensive study of the process and implementation of sustainability reporting and uncover what hinders sustainability reporting from being further integrated into the investment process.

Methodology – We conducted semi-structured in-depth interviews with knowledgeable experts, researchers, investment, and accounting professionals. In addition to our primary data we analyzed surveys conducted by accounting and investment professionals in the field of sustainability reporting.

Findings – By the help of our interviews and surveys we constructed a model that demonstrates the complexity of sustainability reporting. This complexity has become more apparent as sustainability reporting has flourished in popularity. Sustainability reporting has evidently increased in popularity, however, there are still many issues hindering sustainability reporting to become a mainstream practice.

Keywords – Sustainability reporting, Environmental, Social, Governance, Socially responsible investments.

Table of Contents

1	Introduction.....	1
1.1	Background.....	1
1.2	Problem discussion.....	1
1.3	Research questions.....	2
1.4	Purpose.....	2
2	Methodology.....	2
2.1	Approach to the study.....	2
2.2	Data analysis.....	2
2.3	Primary data.....	3
2.4	Secondary data.....	4
2.5	Validity and Reliability.....	4
2.6	Diliminations.....	5
3	Frame of references.....	5
3.1	Sustainable reporting in theory.....	5
3.1.1	The early focus on social and environmental reporting.....	5
3.1.2	The move towards sustainable reporting.....	6
3.2	Sustainable reporting: Accountability and Reliability.....	6
3.3	Non-financial reporting frameworks.....	8
3.3.1	The UN Global Compact.....	9
3.3.2	International Organization for Standardization (ISO).....	10
3.3.3	The Global Reporting Initiative (GRI).....	10
3.4	Other influences.....	12
3.4.1	Organisation for Economic Co-operation and Development.....	12
3.4.2	Rio and Johannesburg summits.....	12
3.4.3	Equator principles.....	13
3.4.4	Principles of Responsible Investing (PRI).....	13
3.4.5	Economic, Social, and Governance factors (ESG).....	13
3.4.6	Carbon Principles.....	13
3.4.7	Greenhouse Gas protocol.....	14
3.5	Assurance of sustainability reports.....	14
3.6	Value of Economic, Social, and Governance factors (ESG).....	16
3.7	Corporate Social Responsibility and financial performance.....	17
3.8	Surveys of Sustainability.....	17
4	Interview Results.....	18
4.1	Environment, Social, and Governance Factors.....	19
4.2	Sustainable Reporting.....	19
4.3	Assurance.....	21
5	Analysis.....	21
5.1	The Process and Implementation of Sustainable Reporting.....	22
5.2	The Hinderance Factors in Sustainability Reporting.....	25
5.2.1	Compliance.....	25
5.2.2	Disclosure of Details.....	26
5.2.3	Sustainability Indicators.....	26
5.2.4	Stating Financial Value.....	27
5.2.5	Management Systems.....	28
5.2.6	Stakeholder Engagement.....	28

5.2.7	Formal Assurance	29
5.2.8	Third Party Commentary	30
6	Discussion	30
6.1	Hindrances	31
6.2	Where to now? Further research and benefits of the study	32
	References.....	33

1 Introduction

1.1 Background

Sustainability is the future if the human race is to survive harmoniously with the planet. New movements and momentum have been developing for some time now in this field. Why though is this not more mainstream and required of companies if its so important to the wellbeing of the planet and everyone on it? It is a hard question to answer in one paper of course so where should one start?

Sustainable reporting is what gives an overview of a company's performance in relation to its sustainability. Within sustainability there are a range of factors to consider including environmental, social, governance, financial, and anti-corruption. Sustainable reporting involves all these issues that affect the long term continuation of a company. Financial and anticorruption factors can be tied in with the other factors and, therefore have less of an impact on our this study. The main factors that this paper have focused on are the economic, social, and governance factors since those are the most prominent in the sustainability movement today. Now, there is a need to identify what is holding back non-financial reporting from being a valuable and prominent asset in evaluating a company.

Gaps in the knowledge of sustainable reporting are an apparent hindrance and therefore, our aim is to thoroughly explore them by identifying hindrances, developing an understanding, and investigating the assurance of sustainability reports. An in depth qualitative study is conducted with highly qualified individuals who are involved in this field of study. After considerable information was gathered from both the interviews and major research was conducted, a model was developed to establish the process of sustainable reporting. From the interviews, the development of a model on the process of sustainable reporting, and other research, hindrances are identified and analyzed.

1.2 Problem Discussion

In the view of the authors, it has become apparent that there is a lack of universal understanding of the chosen phenomenon of observation. There is no universally standardized sustainability reporting framework that is sufficient enough to appear credible for investors. It came to our understanding that no sustainability reports were alike. In addition, the extent to which a report is integrated in the investment process depends on what grounds the report is brought forward, which means the process changes when a variable changes, for example, different sectors or different types of analysis.

In the process of embarking upon this problem our purpose was developed: to gain a deeper understanding of the process and implementation of sustainable reporting and uncover what hinders sustainable reporting from being further integrated in the investment process. Fulfilling the purpose will enable us to realize a comprehensive illustration of the underlying factors included in the development of a sustainable report. And by achieving that, we can identify the possible causes that are hindering sustainability reports from being further and successfully integrated into the investment process.

1.3 Research Questions

How does the process and implementation of sustainability reporting work?
What is hindering sustainable reports from being more influential to investors?

1.4 Purpose

To gain a deeper understanding of the process and implementation of sustainable reporting and uncover what hinders sustainable reporting from being further integrated into the investment process.

2 Methodology

2.1 Approach to the Study

Many of the concepts related to this field of study are only known by individuals who are deeply involved with the matter. Hence, in order to gain a deeper understanding of the topic, and thus also to find reliable answers to our research questions, a qualitative method was chosen to carry out this study. According to Patton (2002: 4), qualitative findings grow out of three kinds of data collection:

- (1) in-depth, open ended interviews
- (2) direct observation
- (3) written documents.

In this research, the first and third method of data collection have been chosen; by carrying out in-depth, open-ended interviews and by analyzing written documents. Written documents were chosen to gain a deeper understanding from existing literature and already developed theories, whereby in-depth, open-ended interviews were chosen to access a more grounded source of theory which would emerge from professionals in the field and actual practitioners of the phenomenon.

2.2 Data Analysis

The first approach in our data analysis was to gain as deep of an understanding as possible by collecting information on the subject in question. This was done through thorough reading and re-reading our findings as well as conducting deep discussions within the research group. We also discussed the topic with different faculty members at Jönköping University in order to gain new perspectives and thoughts on our findings. Through this process we were able to identify which findings were of value for our study and which could be sorted out due to non-relevancy or lack of validity or reliability.

Once having categorized the data, we identified patterns and connections within and between the categories. As we did this, we would constantly identify which exact data supported each interpretation, as well as identify which other factors could contribute to such interpretations. We then evaluated our interpretations according to their relative importance and significance for the analysis before we entered the final stage of bringing it all together and then fulfill the main purpose of our study (For data analysis structure, see for instance Taylor-Powell and Renner 2003).

2.3 Primary Data

Interview style:

Our interviews were semi-structured because the area of study was subject to so many different views and ideas of the interviewees. The characteristics of the semi-structured interview are as follows:

- The interviewer and respondents engage in a formal interview.
- The interviewer develops and uses an 'interview guide.' This is a list of questions and topics that need to be covered during the conversation, usually in a particular order.
- The interviewer follows the guide, but is able to follow topical trajectories in the conversation that may stray from the guide when he or she feels this is appropriate. (RWJF 2008)

When we would conduct the interviews, two interviewers would be present at each interview as a semi-structured interview, which according to Bernard (1988), “is best used when you won't get more than one chance to interview someone and when you will be sending several interviewers out into the field to collect data” (RWJF 2008)

We interviewed the following:

- A Swedish based manager titled as SRI Analyst at a Swedish commercial bank.
- A Swedish based manager titled as Head of Responsible Investments at a Swedish institution, managing assets of about SEK 30 billions.
- A Swedish based manager within the Sustainability Advisory Department at a globally recognized auditing firm.
- A former Financial Analyst, currently active as a consultant within the financial industry.
- A Communication Officer at a Swedish based research program focused on Sustainable Investments.

Only positions are given to keep confidentiality.

We chose who to interview based on the interviewee's education and qualifications in the area of sustainable reporting. It then became obvious that the most useful answers would come from a mix of professions that were involved with sustainable reports and hence we chose the candidates listed above. These candidates gave a much better

rounded response to our questions and were able to give additional input that proved extremely valuable for the conclusion of this study.

2.4 Secondary Data

All secondary data used for this research have been collected from the library at Jönköping University, both through use of its available hard copies of literature and studies, as well as through their electronic databases. Additional documents have been collected through visiting relevant websites.

With a mix of secondary data and answers from the interviews we were able to construct a model that describes the process of sustainable reporting presented in the analysis section below.

2.5 Validity and Reliability

The difference between validity and reliability can be perceived as rather blurred when “the methods of measurement are neither identical nor maximally dissimilar” (See McKinnon 1988: 42)

According to McKinnon (1988), researchers in the social sciences may never speak about achieving perfect validity; they may only speak about achieving a certain extent of validity. Black and Champion (1976), who note that the phenomena of concern in social science research are usually abstracted concepts, support this view. There are no objective standards towards which measurements of these concepts can be compared for verification. Furthermore, for whatever abstract concept that may be of interest for the researcher, there is a universe of existing indicators or manifestations of the concept from which the researcher must pull out a sample. Moreover, they include “questions, statements, social, psychological and/or biological behaviors which, to one degree or another, are of [the concept]” (1976: 224). Reliability, by distinction, comes from the consistency of observations and by taking repeated measures of the same variable, or trait, with identical or similar methods (McKinnon 1988).

McKinnon argues that a field researcher may approach three different strategies to counter threats to validity and reliability (McKinnon, 1988: 39).

- (1) the amount of time the researcher spends in the research setting;
- (2) the use of multiple methods and multiple observations;
- (3) the researcher’s social behavior while in the setting.

This study takes each of the three strategies under concern.

- (1) The study took place during a consecutive period of 20 weeks. This was a suitable duration as it allowed the observers to begin the study with simple listening and watching –and thus avoid the pressure to uncover meanings or develop conclusions too early on in the observation process.

- (2) Because the study is not simulated or restricted to any statement and question manifestations of survey research, this study takes on several methods, such as interviewing and document analysis. Combining the information gathered from the respondents interviewed and the documents analyzed with the authors' own observations will serve to present the comprehensive data set required to make valid conclusions.
- (3) In order to gain reliable and valid answers from our sources, the authors took a neutral stand in all situations. The authors never involved their own beliefs or agendas, nor did they identify themselves with any specific individuals or institutions. Hence, there was minimal pressure on the interviewees, and the authors themselves, to involve personal biases. This threat further decreased by allowing our interviewees to act as anonymous contributors, which gave them a possibility to respond freely in an unconstrained environment.

2.6 Delimitations

Our primary data are limited to financial analysts and investors in Sweden. Our secondary data however, are not limited to any geographical region.

3 Frame of Reference

3.1 Sustainable Reporting in Theory

This section presents the background to the more recent developments of sustainable reporting. We do so to remind the reader that sustainable reporting is not a recent phenomenon, and should therefore not be treated as one; rather we believe that the remembrance of its origin is fundamental in order to support the understanding of the discussion (See for instance Gray et al. 1996).

3.1.1 The Early Focus on Social and Environmental Reporting

The initiative of *social* and *environmental* reporting is certainly not a new one. The concerns of an organizations' social responsibility in general, and thus also how it is communicated to the public, dates back to well before WWII. Yet, we decided to focus on the relatively recent development of CSR reporting, which in the opinion of Gray et al. (1996: 124) may be expressed as reporting on "formal CSR", emphasizing practices brought forward from the relatively recent development of modern organizations¹.

During the early 1970's the American Accounting Association (AAA) issued a series of thorough reports on social and environmental responsibility (See for instance AAA 1973). The discussions were then primarily centered on accounting issues surrounding reporting *to* and *about* employees as well as examination of the reporting information to

¹ Even though, for example, Guthrie and Parker (1989) argue that social reporting is much older than the four decades we have chosen to concentrate on.

trade unions for the function of collective bargaining (Gray et al. 1996; Foley and Maunders 1977). In fact, the very first examples of internally generated social reports date back to the United States in the early and mid- 1970's², where we can find rather different yet interesting attempts of reporting on an organization's social and environmental accounting (Gray et al. 1996 and 2005). Later on, as a result within academia, Matthews (1984) coined the concept "total impact reporting", which was explained as an attempt to present a comprehensive image of an organization's interactions with its external environment. In addition, in 1987, Gray et al. defined corporate social reporting as:

... the process of communicating the social and environmental effects of organisations' economic actions to particular interests groups within society and to society at large. As such, it involves extending the accountability of organizations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicted upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders. (1987: 4)

Gray et al. (1996) identify five aspects of corporate social and environmental reporting (see figure 1 on the next page). The range of the aspects is supposed to demonstrate that social and environmental reporting "is a virtually limitless area of activity" (1996: 82).

3.1.2 The Move Towards Sustainable Reporting

Sustainable reporting may be explained as an emerging practice taken from the predominantly eco-efficiency centered environmental initiatives appearing from the early 1990's and the more socially rounded reporting somewhat reminiscent of the 1970's (Owen 2003: 12). The pioneers in this field were avowedly "values-based" organizations, such as The Body shop.

As argued by Owen (2003: 17) however, the terminology for what we tend to understand as a sustainability report has varied greatly, ranging between titles such as "social and environmental reporting", "Partnership reporting", or "Corporate Responsibility reporting", to mention a few. Despite the variations of titles, the initiatives tend to have two themes in common:

Firstly, there is an attempt to address the organization's economic, environmental, and social dimensions within the margins of one report; a process which can be closely linked to what is argued by Elkington (1997) as "triple bottom line reporting".

Secondly, there is an expressed attempt of commitment to involve stakeholders directly in the reporting process (Owen 2003).

In contrast, the opinion of Gray and Milne (2002) is that sustainability reporting necessitates a systems level of thinking and analysis that most economically motivated organizations will find unattainable to achieve.

² See for instance the reports of *Clark C. Abt and Associates* and *Eastern Gas and Fuel Associates* from 1972, or the *Deutsche Shell* report from 1975 (Extracts from the reports are republished in Gray et al. 1996: 108-110).

Figure 1. "Some aspects of corporate social reporting" (Gray et al. 1996: 83)

Subject	Audience	Content	Motivation	Reliability
<ul style="list-style-type: none"> >Shareholders >Investments >Employees >Consumers >Community >Environment >Total impact >General policy >Ethics and standards >National and local governments >Dealings with other countries 	<ul style="list-style-type: none"> >Shareholders >Financial markets >Employees >Management >Trade unions >Potential employees >Communities >Pressure groups >Media >National governments >Local governments >Regulatory bodies >Competitors >Peers >Industry groups >Consumers >Suppliers >Society in general 	<ul style="list-style-type: none"> >Narrative <ul style="list-style-type: none"> -assertion -factual -intentions >Quantitative <ul style="list-style-type: none"> -actual -targets -comparative >Financial <ul style="list-style-type: none"> -expenditure -commitment -requirement -valuation -impact -liability 	<ul style="list-style-type: none"> >Ethics >Individual commitment >Accountability >Legal >Code of practice >Anticipate regulation >Forestall regulation >Marketing >Public image >Defense >Distract attention >Influence perceptions >Response to pressure >Get ahead of/stay with competitors >Experimentation >Previously given commitment >Ethical investors >To overcome fears of secrecy >To maintain position of power >Legitimation 	<ul style="list-style-type: none"> >Estimates and partial data >Internal audit and information systems >Externally prepared >Externally commented upon >External audit

An argument which they base upon the understanding of sustainability as a concept which implies the need to consider the scale of growth relative to the existing resource base; the fair access to those resources and the outputs created from them, counting both present generations and upcoming generations; and the efficiency with which the resources are taken care of (Gray et al. 2005).

Reliable and thus serious sustainability reports should include the organization's contribution to *and* detraction from *environmental* sustainability; and the organization's contribution to *and* detraction from *social* sustainability (2005).

3.2 Sustainable Reporting: Accountability and Reliability

The innovative upsurge of environmental reporting during the 1990's –and the less keen re-emergence of social reporting from the mid 1990's– has indeed provided a platform for sustainable reporting, albeit a rather shaky platform (Gray et al. 2005). In addition, the development of reporting has brought a very momentous change with it. The reporting has in a sense created a common place for Chief Executive Officers (CEO's) and boards discussing and making statements on social responsibility, sustainability, and

triple bottom line sustainability(2005). Gray et al. (2005: 71-73) have recognized four reasons why such discussions and statements should be acknowledged as being somewhat premature:

Firstly, sustainable reporting is still a voluntary phenomenon in most countries.

Secondly, very few companies maintain sustainable reporting as a regular practice; the total population of reporting companies remains relatively small. In addition, not until a firm substantial framework is in place –preferably through law– will the vast majority of companies report. Voluntary systems may only work if everyone is willing to volunteer.

Thirdly, the general quality of existing social, environmental and sustainability reports has remained, with a few exceptions, low. Most reports tend to “cherry-pick” elements of news and simply forget about the major social consequences that arise from corporate activity, as for instance lobbying, advertising, increased consumption, distribution of wealth and so on. Moreover, reports will only retain their inferior quality as they ignore issues of complexity and context. An organization’s social responsibility makes no sense taken out of the context of capitalism, local laws, and culture. Likewise, environmental performance will only make sense in the context of the state and functioning of wider environmental systems.

Fourthly, for anyone to believe a sustainability report’s statements, claims, and assertions, the report requires to be subject to an expert attestation. Thus, in principal, social and environmental information ought to be as thoroughly regulated and audited as financial information.

Gray et al. (2005) further conclude that the underlying facet of the four aspects is that we must understand sustainability as a systems concept and not as an organizational concept. Only then can we start re-conceptualize our decision-making and reach some kind of harmony with our ecological roots. In order for this to happen, substantive legislation may be required for all large organizations. Until then social and environmental *accountability* will only remain as a “nice idea” (Gray et al. 2002: 6).

3.3 Non-Financial Reporting Frameworks

New trends are beginning to set foot in the business world and non-financial reporting is a big movement. Since the recent financial crisis, awareness is arising of the negative impact businesses can have on society and the environment. Corporate fraud, scandals and global climate issues are pushing for broader stakeholder consideration by companies. Heightened awareness is bringing about a demand for more transparency and accountability from management. This deals with supplying stakeholders with a better picture of what the impact of the businesses activities are. Standards are trying to take hold, but difficulties to tackle this enormous task of a universally standardized reporting framework have been obstacles to create a complete and valuable system for non-financial reporting.

Global standards have risen out of the UN global compact, the International Organization for Standardization (ISO), and then the Global Reporting Initiative (GRI).

Below we will briefly explain the frameworks that have contributed to the field of social responsibility. Each has its own contribution in different areas and the research conducted behind each of them is all connected to what sustainable reporting is working towards.

3.3.1 The UN Global Compact

The UN created a framework consisting of ten principles to steer companies in the direction towards more transparent and accountable ways of conduct. They are categorized into four sections: human rights, labor, environment and anti-corruption. These principles are used in collaboration with the Global Reporting Initiative.

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labor Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labor;

Principle 5: the effective abolition of child labor; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery (UNGC 2009).

These guidelines aim to help a company's strategies become more sustainable and take all aspects of a company's impacts on society and the environment into account. It is currently "the largest corporate citizenship and sustainability initiative in the world — with over 7700 corporate participants and stakeholders from over 130 countries" (UNGC 2009)

There are two main goals also stated by the UNGC:

1. Mainstream the ten principles in business activities around the world.

2. Catalyze actions in support of broader UN goals, including the Millennium Development Goals (MDGs). (UNGC 2009)

3.3.2 International Organization for Standardization (ISO)

The ISO has begun to create standards in the fields of environmental factors and social responsibility. After the United Nations Conference on Environment and Development, which took place in Rio de Janeiro, the ISO began to formulate environmental standards and the ISO 14000 family was created. More recently ISO is working on the ISO 26000 which is to focus on social responsibility.

14000 Family:

This set of standards is to help companies create useful environmental management systems (EMS). It does this by creating standards and frameworks for managers to use that will help incorporate environmental impacts in their management strategies. It does not set any specific parameters for the level of environmental performance because it would be different for each company depending on the industry it is in. Instead it gives guidelines and frameworks to develop a company's environmental policies and strategies. This consists of "generic requirements" that help to establish a "common reference" that will allow for easier evaluation of a company's actual performance by stakeholders. (ISO 2010)

26000 Family:

ISO 26000 family is currently under work and is set to be published in September 2010. It focuses on social responsibility and will be a voluntary set of standards and therefore will not have a certification. The guidelines are aimed to compliment current works and standards such as the United Nations Universal Declaration of Human Rights and help unify the current movement towards more socially responsible company strategies. (ISO SR 2008)

3.3.3 The Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) has its roots within the Boston based non-profits Ceres³ and the Tellus Institute⁴. It was initiated in 1997 and is together with its founders perceived as a pioneer in the development of sustainable reporting. In 1998, the GRI aligned with the UN Environment Program (UNEP), making them partnering institutions. For GRI the partnership primarily meant added legitimacy, administrative and intellectual support, as well as access to greater funding. Together they created a reporting framework which was to include social, economic, and governance issues such as labor standards, governance, and anti-corruption policies. As a result, GRI since the year 2000 has brought forward three generations of guidelines, G1, G2, and G3. It has also

³“Ceres is a national network of investors, environmental organizations and other public interest groups working with companies and investors to address sustainability challenges such as global climate change”. (Ceres, 2010)

⁴“Tellus Institute is an international leader in resource and environmental strategies, and helping shape the embryonic field of sustainable development.” (Tellus Institute, 2010)

produced several sector supplements and a host of technical papers and user guides (Levy et al. 2010).

GRI's Vision:

The [GRI's] vision is that disclosure on economic, environmental, and social performance is as commonplace and comparable as financial reporting, and as important to organizational success. (GRI, 2010)

GRI's Mission:

GRI's mission is to create condition for the transparent and reliable exchange of sustainability information through the development and continuous improvement of the GRI Sustainability Reporting Framework (2010).

GRI's 1997 draft paper stated the following:

The GRI vision is to improve corporate accountability by ensuring that all stakeholders—communities, environmentalists, labor, religious groups, shareholders, investment managers—have access to standardized, comparable, and consistent environmental information akin to corporate financial reporting. Only in this fashion will we be able to (1) use the capital markets to promote and ensure sustainable business practices; (2) measure companies' adherence to standards set from Ceres principles; and (3) empower NGOs around the globe with the information they need to hold corporations accountable. (Ceres, 1997, cited in Levy et al. 2010: 95)

The strategy to implement the 1997's draft paper's statement, in the vision of the founders, was to create and develop guidelines which would mobilize a wide range of actors. The evolving process would then institutionalize a dialogue between the actors, craft new norms and practices, and hence develop new understandings of corporate and collective responsibility and accountability (Levy et al. 2010). The strategy was considered as rather non-confrontational, and it was developed to “draw NGOs and corporations into a collaborative partnership to serve mutual interests, while gently cajoling companies to change their attitudes and practices” (2010: 95). Or in other words, as one of GRI's founders, Robert Massie, stated: “We wanted to ensure that future leaders within the society will pick up the role of stewards of the future... the process of giving a name to something and turning it into a base for a dialogue” (cited in Levy et al. 2010: 95, as a quote from personal interviews conducted between 2005 and 2006).

Succeeding to create this standardized form of information would allow benchmarking, ranking, and cross-comparison of companies, enabling NGOs to both put pressure as well as reward a company's practice and performance (Levy et al. 2010). However, despite the increased number of companies following the GRI guidelines, “a persistent lack of consensus on what and how to report raises concern about the content and quality [of the sustainability reports]” (Florino, 2006: 116). This acknowledgement by Florino is fairly similar to what is argued by Brown and Marshall (2003: 89), they argue that despite the efforts of GRI's disclosure on corporate environmental practices, they still vary too much in format, style, and content; making “within industry and across industry comparisons challenging, if not impossible”.

3.4 Other Influences

Influences in the constantly developing field of sustainability are important to note as most of them have similar or contributing goals, theories, and studies to sustainable reporting. There has been a range of different types of international meetings and projects on issues of social responsibility, human rights, and the environment. Some of the most prominent ones are the OECD framework, Rio and Johannesburg summit, Equator Principals, Principles of Responsible Investing (PRI), Economic Social Governance factors (ESG), Carbon Principals, and the Greenhouse Gas Protocol (GHG Protocol).

3.4.1 Organisation for Economic Co-operation and Development (OECD)

The OECD is an international government forum that consists of 30 countries. The aim of the organization is for the participating countries to “work together to address the economic, social and governance challenges of globalization as well as to exploit its opportunities” (OECD 2010) They gather data on economies and try to help create policies to aid in the improvement of the global economy in a sustainable way. Their guidelines for multinational enterprises are a major contribution to the sustainability movement and are described as follows: “The 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 2010)

3.4.2 Rio and Johannesburg Summits

UN Conference on Environment and Development was held in 1992 in Rio de Janeiro and created the UN Commission on Sustainable Development (CSD). Ten years later there was the World summit on sustainable development (Rio’ Earth Summit +10) in Johannesburg, South Africa. These summits were meetings of countries around the world to establish global agreements on issues of sustainability. One of the most prominent achievements was that of Agenda 21.

The summit was “a thorough and broad-ranging programme of actions demanding new ways of investing in our future to reach global sustainable development in the 21st century” (UN Earth Summit 2002)

3.4.3 Equator Principles

These are a set of principles generated by participating financial institutions to set benchmark standards when financing projects. The principles are to make sure the projects financed by the participating institutions are “developed in a manner that is socially responsible and reflect sound environmental management practices” (The equator principles 2010)

3.4.4 Principles of Responsible Investing (PRI)

PRI is an investor initiative created in cooperation with the United Nations Environment Programme (UNEP) Finance Initiative and the UN Global Compact. The principals are as follows where ESG is environmental social and governance:

- 1 We will incorporate ESG issues into investment analysis and decision-making processes.
- 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4 We will promote acceptance and implementation of the Principles within the investment industry.
- 5 We will work together to enhance our effectiveness in implementing the Principles.
- 6 We will each report on our activities and progress towards implementing the Principles.

(PRI 2010) These are voluntary principles for investors to adapt and follow.

3.4.5 Economic, Social, and Governance Factors (ESG)

The ESG is a framework created for investing based on economic, social, and governance factors. ESG frameworks consist of a range of objective and indicators that are different depending on the sector the company is in. Companies supply an investment analysis firm with the information to be analyzed and are encouraged to validate how accurate the information presented is. (GS Sustain report 2007)

3.4.6 Carbon Principles

These sets of principles were created by financial firms in the United States. The goals of the principals are to push their clients towards using renewable low carbon energy, establish a link between financial performance and carbon emissions, and to educate others on the diligence needed when including carbon principles. (The Carbon Principles 2009)

3.4.7 Greenhouse Gas Protocol

The Greenhouse Gas Protocol (GHG Protocol) is the most widely used international accounting tool for government and business leaders to understand, quantify, and manage greenhouse gas emissions. (GHG 2010)

3.4.8 Summary

All of the above influences have created some form of protocols or ways of implementing a more sustainable business conduct. Each influence has its own data bases with substantial studies conducted to further spread the use of the targeted sustainability factors. Relevant data from each influence can be used to help achieve a better understanding of this area of research and with that we used the pieces from each to get our model and hindrance analysis.

3.5 Assurance of sustainability reports

Sustainability reports often vary greatly in their content and quality. In order to secure a substantial level of quality in sustainability reports companies will have to assure their reports by the help of qualified accounting professionals. Accounting professionals determine whether a financial report is fair-valued by looking at actual numbers. The methods of assurance for non financial reports however, are quite different than the methods of assuring financial reports.

Recently two organizations have attempted to create an international standard for external verification of sustainability reports. *The International Auditing and Assurance Standard Board* (IAASB) founded by *the International Federation of Accountants* on the 1st of January 2005 and *the Institute of Social and Ethical Accountability* (ISEA) founded by a British non-governmental organization in 2003. (Dando and Swift, 2003)

The International Auditing and Assurance Standard Board's mission is the following

- Setting independently high quality standards in auditing, review, other assurance, quality control and other related practices.
- Facilitate the integration of national and international standards.

The Institute of Social and Ethical Accountability's mission is to enhance social, ethical and overall organizational performance by developing and promoting effective tools and professional expertise.

The IAASB's standard for external verification of non-financial report is named the International Standard on Assurance Engagements 3000 (ISAE 3000). The ISAE 3000 is a framework consisting of 57 guidelines. The purpose of the ISAE 3000 is to establish basic principles and essential procedures to provide guidance to professional accountants in public practice for the performance of assurance engagements other than audits or reviews of historical financial information.

The ISEA's standard for external verification of non-financial reports is named the Account Ability 1000 (AA1000). The AA1000 is a framework to help organizations build their accountability and social responsibility through quality social and ethical accounting, auditing and reporting. The framework addresses the need for organizations to integrate their stakeholder engagement process into their daily activities.

In addition to these standards for assurance, individual countries have issued their own designed standards such as Sweden (FAR SRS, 2004), Germany (IDW, 2005), Australia (Standards Australia, 2005), France (CNCC, 2004), and Italy (CNDC 2006), all of which are inspired by the ISAE 3000. (Manetti and Becatti, 2009)

The ISAE 3000 has become obligatory for accounting firms doing corporate responsibility assurance if there is no national alternative. (KPMG Report)

The ISAE 3000 guidelines for assuring sustainability reports are:

1) Level of assurance

A sustainability report could be assured by the means of limited or reasonable assurance method.

Here are some examples of factors determining whether a report is limited or reasonable assured:

- The use of selective tests
- The use of internal control systems
- The level of information assembled by auditors are indicative or conclusive
- The level of discretion used in collecting information
(Hasan et al., 2005; IFAC, 2002)

The difference between limited and reasonable assurance lies in the amount or depth of work that the accounting provider undertakes. Limited assurance has a lower level of assurance than the reasonable level of assurance.

2) Teams of interdisciplinary experts

Auditors may lack professional knowledge needed to assure sustainability reports in certain industries. The ISAE 3000 also suggests to make use of experts from other disciplines.

3) Method of verification

The evidence must be highly relevant and verified by experts such as,

opinion leaders, expert panels, non-governmental organizations and rating agencies that from time to time are called on to opine on the reliability of qualitative information or regarding postulates on the materiality and relevance of information, in the absence of objective confirmation from the auditor. As concerns the type of verifications to be conducted by a team, these combine substantive tests, analytical procedures and control tests. (Manetti and Becatti, 2009)

4) The evaluation of audit risk

The type of procedure then concretely adopted will determine diverse evaluations of the audit risk, since the degree to which the auditor considers the various components of risk (inherent risk, control risk and detection risk) depends on the particular circumstances of the task, in particular the nature of the subject matter and the degree of reliability of the service to be provided. (Manetti and Becatti, 2009)

5) Suitable reporting criteria

The ISAE 3000 recalls the principle that an assurance provider cannot accept a task for which it does not know the reference criteria that have been applied in the report, or if it judges these criteria insufficient. (Manetti and Becatti, 2009)

6) The form of the final assurance statement

Auditor's work concludes in issuing a final statement clearly stating their conclusions regarding the information in the reviewed document. (Owen and O'Dwyer, 2004) The final assurance statement must also be expressed in the form of negative or positive language whether it has been made by the use of limited or reasonable assurance.

Assurance of sustainability reports plays a vital role in giving sustainability reports validity and credibility for its stakeholders. We now know that assurance of sustainability reports could be made by using internal or external teams of experts to give limited or reasonable assurance of different parts or of the complete report. The assurance could be verified in different ways and there is also a varying element of evaluating the audit risk to consider. What really differs from report to report is the use of suitable reporting criteria. In finalizing the process a company could issue a final assurance statement in either negative or positive form. The question that remains is what would be the most appropriate level of assuring sustainability reports to catalyze their role into investment decisions. This is a crucial part of our purpose to investigate and find an answer to.

3.6 Value of Economic, Social, and governance factors (ESG)

Economic, social, and governance factors have become a central part of sustainability reports. The dominant pension funds in Sweden are using these factors to evaluate in which companies to invest in or not. There are also very large ethical and environmental funds managed by the major financial institutions in Sweden that demonstrate a high degree of sustainability.

The ESG factors are analyzed by socially responsible investors to determine whether the risk of the ESG factors may influence the return on investment. There are many organizations today that are trying to mainstream the ESG factors in investment decisions, such as, the Principles for Responsible Investment (PRI) and the Enhanced Analytics Initiative (EAI).

The ESG factors main influence on financial value lies in the brand equity or the so-called goodwill of a company. This influence may fluctuate due to change of public

view on a specific company. However, “many mainstream financial analysts and fund managers are still unconvinced about the impact of ESG issues on stock value” (Jaworski, 2007)

3.7 Corporate Social Responsibility and Financial Performance

The *concept* of Corporate Social Responsibility (CSR) has become used widely within the field of strategic management (see, for example, Kay, 1993, or Elkington, 1997). The concept engages management to consider complex factors within the social contexts in which they operate. As stated by McGee (1998: 382), “[CSR] requires the value-generating function of the company to be thought as constituting a set of relationships –with employees, customers, suppliers, and community interests as well as shareholders– which can add or subtract value and from which the company derives its ability to go on creating value”. A statement that can be further linked to what is argued by Kay (1993) is that we may link CSR to strategic management as: 1) a source of information in the business to support strategic choice and action to go into the strategic plan; 2) a part of the business infrastructure to support the value chain; and 3) as a mainstream management task. Many researchers have thus have conducted studies on whether we can find a link between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP).

As the complex character of the hypotheses may indicate, no unambiguous and clear consensus has yet been reached. For instance, according to a study made by Orlitzky, Schmidt, and Rynes (2003), there *is* a statistically significant relationship between CSP and CFP. Yet, a more recent study by Schreck (2009: 100) argues that, despite the frequently claimed relationship, “there is *no* empirical basis for the assumption of a generic CSP/CFP-link”.

3.8 Surveys of Sustainability

Sustainability reporting has been around for a long time but it has not been given the full attention it deserves to become a mainstream practice. We can see that the trend is very positive towards further acceptance of these reports and we can predict that sustainability reporting will become an integrated part of the reporting practice in the future. This would only become a reality if sustainability reporting can overcome significant obstacles that we came across in our study. We have identified several hindrance factors for sustainability reporting after examining the four interviews carried out by knowledgeable institutions in the field of sustainability reporting. The surveys were carried out by the following institutions:

- 1) In 2007, the European Centre for Corporate Engagement designed a survey aimed to gain a better understanding on how to incorporate extra non-financial information about the ESG factors into investment analysis. Their survey targeted financial analyst and fund managers.
- 2) In 2008, KPMG constructed a survey for the fortune G250, the 250 largest global companies by revenue, to answer various questions to gain insight into sustainability reporting.

3) In 2009, a group of the largest Swedish investors and shareholders called the sustainable value creation designed a survey to highlight the importance of sustainability issues encountered by companies. This survey targeted company executives.

4) In 2010, McKinsey made a survey directed at executives and received 1946 responses representing a wide range of industries and regions. McKinsey's purpose was to see how companies manage sustainability.

A critical challenge for sustainability reports is to determine a single way to construct a report to cover all the issues of importance to the company and its stakeholders. This has been expressed in the surveys by the following:

- In theory the link between corporate governance and corporate responsibility seems clear, but in practice many companies do not appear to be making the connection and capitalizing on the potential benefits. (KPMG, Survey 2008)
- According to the companies, boards and corporate management place great emphasis on sustainability issues, but they have not advanced as far in implementing and complying with policies adopted. (Sustainable Value Creation, Survey 2009)
- Fifty-six percent of all the respondents define sustainability in two or more ways. (McKinsey, Survey 2010)
- Evidence suggests a growing interest in SRI. However, investors continue to manage only a small percentage of their assets on an SRI basis, while ESG issues remain a niche market and are integrated into mainstream investments only to a limited extent. (ECCE, Survey 2007)

4 Interview Results

The results of our interviews are presented here by giving summaries. In order to make the analysis more succinct we have put the data into tables. From the beginning we used interviews that were open and more exploratory. In each of the data tables there are questions that pertain to the purpose of this paper, and then in the columns there are the positions of the people interviewed.

To group the results, they are separated into three data tables: ESG factor questions, sustainable report questions, and assurance questions. The X mark in the tables signifies no response was obtained for that question from the interviewee.

4.1 Environment, Social, and Governance Factors

ESG Factors Data Table

	Asset manager	Swedish Sri analyst	Sustainability advisor	Financial analyst
What is the extent of ESG integration in investment process?	X	Depends on analyst and investment	X	X
Which of the ESG factors is most important for the investment decision?	Depends on business sector according to risks and opportunities	Governance is most important	X	X

This category received the least amount of direct responses because some persons either claimed it was impossible for them to give a reliable answer or, as seen in the table, it depends on who is analyzing and what sector the analysis is taking place in. It is interesting to observe that there is not a deep enough understanding of how ESG factors are actually used to influence investment decisions. It was agreed by all the interviewees that they were used but there was no straight answer as to how much they actually were weighted in the decision.

The following results were derived from the open and semi-structured interviews:

Firstly, the integration process of ESG factors is different from analyst to analyst and from institution to institution. Institutions with a high focus on SRI products will typically have more resources put into integrating all aspects of the ESG factors, whereas a “traditional institution” with less or no focus on SRI products would first and foremost cover the governance factor. The financial analyst also stated that sell-side analysts work under such time pressure that they seldom are able to really scrutinize ESG factors more than they feel is merely sufficient.

4.2 Sustainable Reporting

Sustainable report Data table

Sustainable reporting issues were the main focus of the interviews and therefore we received the most amount of feedback. As is apparent in the table, many of the answers were not very solid and were subject to multiple variables.

	Asset manager	Swedish Sri analyst	Sustainability advisor	Financial analyst
How is it integrated in the decision process?	X	Depends on type of analyst	X	Depends on analysts and their investment strategy
Are sustainable reports valuable to investors?	Value must increase to be more useful but is valuable	Yes but more to some than others, qualities of reports vary according to sector – high risk sectors are better at it	Yes	More valuable to buy-side than sell-side
How do they add value?	Increase extent of transparency	First layer of information in the analysis of sustainable investments	Helps identify risks	They are not weighted very much
How does it influence investors?	X	First layer of information	Helps identify risks	Depends on investor and sector
How can they become more valuable for investors?	Need more supporting information	Need more information	X	X
What about the GRI?	X	Added value to standardization, but right now it still needs to be developed better	Most companies in Sweden use it and choose level A, B, or C	X

Some basic results were as follows:

Quality of sustainable reports varies greatly from sector to sector and even within each sector from company to company. Usually companies in sectors with high risk produce better sustainability reports.

Generally, all companies are better at reporting on environmental factors than on social factors.

Most reports are not supported with enough facts and evidence.

Often companies tend to present more positive reflections than negative ones.

For the SRI analyst, a sustainability report is mostly the first step in the analysis. It is a piece of information which one can use to base further research on. No sustainability report is complete, and often companies that are able to, will provide the analyst with additional information on request.

GRI is a positive step forward in standardizing non-financial reporting. Currently, the GRI framework is still incomplete and more adequate measurements must be brought forward to make it become quantitatively valuable. The different levels of the GRI (A, B, and C) make analysis of the reports less comparable and thus less reliable.

4.3 Assurance

Assurance Data Table

	Asset manager	Swedish Sri analyst	Sustainability advisor	Financial analyst
The investors' value of assured reports?	Valuable but improvement is needed	Yes in some but not always, could be just as good without	Yes,	X
Value of positive?	Too high emphasis	X	There has been increased demand due to increase in non financial report standards	X
Value of negative?	Lacking in reports	X	More common than positive	X

Assurance of sustainable reports is a very underdeveloped aspect of the reporting process. Answers from the interviewees stated that if a sustainable report was assured it did not necessarily mean there was any added validity to the report.

Some results from this section questions were as follows:

Third party assurance can vary significantly from report to report. Some interviewees said assured reports could be very reliable whereas others can be disastrous. Assurance does not always mean added value to the report and non-assured reports could also be very reliable.

5 Analysis

The analysis of this study is carried out in two parts. In the first part we make an attempt to illustrate and describe the process and implementation of sustainable reporting. In the

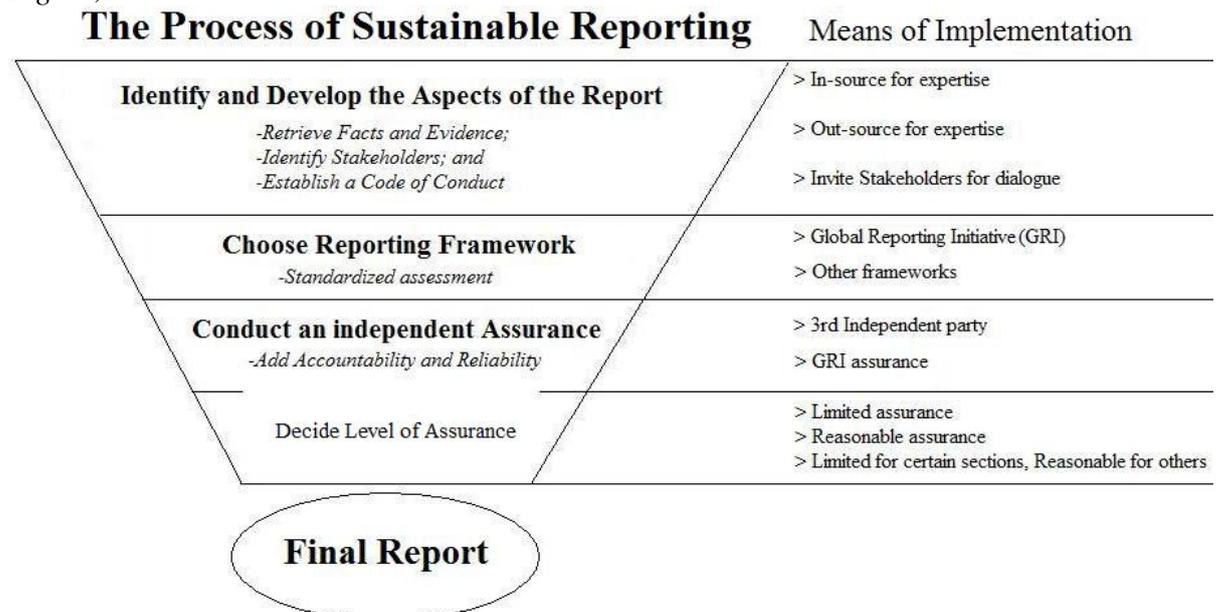
second part, we try to identify what factors are hindering sustainability reports from being more influential to investors.

5.1 The Process and Implementation of Sustainable Reporting

Primarily built on the outcome from our exploratory research, and developed through a systematic analysis of our results, in this section we make an attempt to illustrate how the process and implementation of a sustainability report may work –or appear to work in theory– from the perspective of a reporting organization. We do so by illustrating the process *behind* a final sustainability report, as well as pointing out what means of implementation can be used when executing each step in the process. By examining this illustration we gained a deeper understanding of the activities related to the development of a sustainability report. In addition, it will give some insight on how one may reflect on the reports’ varying outcomes and aspects. The illustration is first presented in Figure 2, which gives a simplified overview of the topic, followed by a more descriptive explanation guiding the reader through the model in a top-down approach, whereby the bolded headings emphasize the most critical steps to be identified.

The steps in the process are not necessarily collectively exhausted as there is no international legislation concerning which aspects must be included in a sustainability report. All existing local legislation, which is still a very uncommon phenomenon, is subject to country specific regulations. However, despite the possibility of being subjected to regulation or not, considering every step in the model is still relevant for any decision maker dealing with sustainability reporting. As some existing local regulations may be an outlet for future universal regulations, we believe it is appropriate to note them in the description whenever they tend to interact with the model.

Figure,2



Identify and Develop the Aspects of the Report:

Through this initial step in the process, the reporting company must realize the “total impact” of its operations throughout its value-chain. In other words, they must try to make an evaluation of the organizations interactions with its external environment, as discussed earlier in “the early focus on social and environmental reporting”. To achieve this the company may look into the five operational aspects of subject, audience, content, motivation, and reliability, which are all presented earlier in figure 1. This will allow them to assess the organization, as well as decide their standpoint against each of the five categories, and hence, as a result, gain a more comprehensive view over their situation.

The desired outcomes are primarily to retrieve facts and evidence to support the report, identify their stakeholders, and to develop the organization’s code of conduct. Typically, this should be done through an organizational top-down *and* bottom-up approach, which is sufficient to allow information to flow efficiently in both directions. This initial step is certainly the most exhausting step in the process as it requires high levels of knowledge and consists of highly time-consuming exploration- and examination- practices. This step is also very dependent on the company’s previous experience within the field.

Additionally, this is the step where most companies identify most significant costs behind the development of sustainability reports. This view however, may indeed be countered by the view of seeing such practices as being significantly cost-efficient and positive to operational financial performance in the long-run. As the latter argument is highly subjective to its situation we will bypass such remarks, and only stress the costs of the actual development of the report.

As this process demands high levels of knowledge and experience, the means to implement this initial step in the process may take one of three approaches;

1. By in-sourcing expertise within the organization
2. By out-sourcing expertise, through an external sustainability advisor
3. By inviting available stakeholders for a constructive dialogue.

Certainly, this may also be done through a combination of the three.

Choose Reporting Framework:

This step in the process is closely linked to the initial step. Because the selection of a specific reporting framework brought forward in that explicit framework chosen requires the organization to report on a set of standardized measurements and indicators.

From our interviews we have found that organizations are usually fairly inexperienced in sustainability reporting and therefore may use the reporting frameworks as ideal tools for developing certain sustainability practices.

We believe that the choice of a reporting framework is motivated by the first initial step in which a much wider analysis is carried out. This analysis will then allow an organization to identify a framework they find most relevant and suitable for their reporting.

The means to implement this step in the process are simply to choose an existing framework that the organization feels is most valuable, *or* –which is the case in some countries– choose the framework that they are obliged to choose according to their country’s legislation. As the latter is still a rather uncommon phenomenon, globally speaking, we have treated this step in the process as a voluntary practice, in which the organizations have freedom to choose whichever framework they desire. Moreover, we have identified one framework as the most progressive and all encompassing, the Global Reporting Initiative (GRI), since no other framework is as universally and significantly used. This concludes us to label any other minor framework available as “other frameworks”. Nonetheless, choosing the GRI as its reporting framework will still require one to make further decisions. Decisions such as deciding what “application level⁵” one decides to report on, as well as what “sector supplement⁶” one may add to the original guidelines of the framework. We bring both of the latter aspects into account since they both have a rather important impact on the final results of the report.

Still, universally, choosing a reporting framework is not a fully standardized practice, even though the GRI has made –and is still making– remarkable progress by institutionalizing itself throughout the professional field of non financial reporting.

Conduct an Independent Assurance:

The last step in issuing a sustainability report is to decide whether it should be assured by an external independent party or not. This step is primarily concerned with adding accountability and reliability to the report. In a few countries, some certain companies are obliged by law to carry out an external assurance –yet the number is too low to have any effect on our analysis. Furthermore, even though the report may be assured or not, one must not forget the underlying aspect in the occurrence of an assurance, which is the decision of what *level* the assurance should be carried out on.

The means of implementation in this step are divided into two categories comprising of the external assurer and the different levels of assurances. The external assurer is an approved assurer of sustainability reports, which may range from experienced financial auditing firms, to individual firms specialized in sustainability advisory. It is notable that in some cases the assurer may also be involved in the model’s first step of the process as an outsourced sustainability advisor. Reports following the GRI framework may in addition get the report assured by the GRI themselves as an extra assurance added to the assurance from an external party.

The level of assurance is decided by choosing a limited- or reasonable- method, or limited for certain sections, and reasonable for others. All which are highly dependent on the quality of the report’s content.

Finally, Figure 2 concludes that each final sustainability report is very much dependent on its underlying process. The process itself is highly influenced by its different means of implementation meaning that to understand and evaluate the content of a report, one

⁵ The application levels indicate to what extent the GRI guidelines have been utilized in the report. You can choose to report on either an A-, B-, or C- level, whereby the A-level indicate most utilization and C- level least utilization (GRI, 2010).

⁶ Additional sector supplements may be added to the original GRI guidelines in order to further validate the report against the concerns of a specific sector of operations (GRI, 2010).

should be aware of how the report has been brought forward and what means of implementation it has undertaken.

5.2 The Hindrance Factors in Sustainability Reporting

We have examined four surveys to identify hindrance factors for sustainability reporting. Using data from four different surveys gave us a good and credible understanding of the issues with sustainability reporting. The specific hindrance factors we found from our research are; compliance, disclosure of details, sustainability indicators, stating financial value, management systems, stakeholder engagement, formal assurance, and third party commentary. We see these areas as vital areas for improvements.

5.2.1 Compliance

In one way a sustainability report serves as a basis for telling a company's employees about their environmental and ethical policies. Therefore it is critical that a company's employees and their suppliers comply with the standards set by the company. People not complying with the standards are seen as a great hindrance for sustainability reports to become a worldwide accepted practice. The goal is that companies seek to ensure that their employees are aware of and take steps to comply with the standards. If compliance is not followed properly it could hinder sustainability reports to be reliable.

We found out that 92 percent of the G250 companies present a corporate governance code of conduct or ethics, while only 59 percent report on incidents of non-compliance with the code.

In 2008 79 percent of the G250 released a sustainability report, an increase from 52 percent in 2005. Japan and the UK have the highest percentage of companies releasing sustainability reports. Brazil is in third place with 80 percent of its G250 companies releasing sustainability reports. (KPMG, Survey 2008)

According to the McKinsey survey made by the help of 1,946 companies executives worldwide, 72 percent of respondents consider sustainability "extremely" or "very important" to manage corporate reputation and brand value. Another 55 percent agree that investment in sustainability helps their companies to build reputation and brand value. It's interesting to note that given the importance of sustainability only 27 percent of respondents say they run sustainability initiatives on a day-to-day basis. In addition 25 percent of the executives consider it a top-three priority on their CEOs' agendas. (McKinsey, Survey 2010)

Among the executives in the McKinsey survey, 26 percent say their company issues a sustainability report. This figure is significantly higher among energy companies being 43 percent.

Among the top 100 largest Swedish companies on the Stockholm OMX stock exchange we can see 90 percent of the companies make sustainability policies primarily for their own employees. The sustainable value creation survey also found out that the top Swedish companies lack in effort to implement and follow up on compliance with their policies. The sustainability field with the highest compliance is environmental factors and the field with lowest compliance is human rights. The companies reported it is very difficult to find the appropriate level for compliance and accountability. (Sustainable value creation, Survey 2009)

When talking about compliance, it is important that the policies are followed throughout the value chain. In the sustainable value creation survey we noted that only 60 percent of the companies have policies that apply to their suppliers. Except for environmental concerns in which 75 percent of the companies have policies for their suppliers. Further along the value chain key policies decrease even more. The companies' policies do not apply to key business partners, customers or financial investments to any substantial extent. (Sustainable value creation, Survey 2009)

5.2.2 Disclosure of Details

Companies have to disclose details or information to make the sustainability reports more transparent. It is highly probable that analysts and investors would take sustainability reporting more seriously if a company has a higher degree of disclosure of details about their operations. A hindrance would be that companies do not disclose full details about their operations.

All G250 have a supply chain code of conduct, but only half choose to disclose the details of how it is implemented and monitored. Slightly more than half (62 percent) of the G250 companies choose to report on climate risks. 64 percent of the G250 companies present how they are going to lower the business risks linked to climate change. 41 percent of the G250 companies did not report on their carbon footprint. (KPMG, Survey 2008)

Family owned and private equity owned enterprises do not have the same accountability to the broader public for their business activities, especially their financial results. This general lack of transparency and accountability may account for the relatively low prevalence of disclosed corporate responsibility strategies and objectives. This lack of accountability could also be interpreted to mean they are simply not disclosing or they might not consider corporate responsibility to be a key business issue. (KPMG, Survey 2008)

As stated by the ECCE survey, corporate communication practices relating to ESG issues seem to have improved, but many analysts and investors do not perceive that the companies provide enough information to allow effective assessment of these factors' impacts. (ECCE, Survey 2007)

5.2.3 Sustainability Indicators

Sustainability indicators could be useful ways for companies to set goals to further improve on their sustainability issues. However if companies do not use sustainability indicators to measure their work on sustainability issues this would hinder them from further improvements.

Only 65 percent of the G250 use performance indicators to measure sustainability. Another 60 percent provided data for performance indicators, while 73 percent state a strategy with an identified objective. (KPMG, Survey 2008)

One company commented in the sustainable value creation survey that "It has been hard to define good overall sustainability targets". Companies with sustainability reports often commented that management and control systems are useful tools to gather performance indicators connected to fulfilling targets and strategies. Companies with sustain-

nability reports have often created a formal internal organization for its sustainability work. (Sustainable value creation, Survey 2009)

Key performance indicators and results in non-financial reports are less common, a small percentage of the companies measure their sustainability work in numbers. Less than 60 percent of the companies in the sustainable value creation survey confirmed that they work with sustainability factors using targets, and only 20 percent report the results from such control systems. Companies are more likely to report in the area of environment and to a small extent in the health, working environment and safety area around 45 percent and 30 percent respectively. This may be because it is easier to find appropriate performance indicators and income measures in these areas. According to the sustainable value creation survey, it is a challenge for the companies to find parameters in other areas of sustainability. (Sustainable Value Creation, Survey 2009)

Most important differences exist between sectors and their use of various ESG indicators. Environmental indicators are most important mainly for companies in environmentally risky sectors like the automotive, mining and utility sectors. In the consumer goods sector human rights indicators play a major role. Companies in sectors such as mining, steel, and metals are more aware of community involvement. Corporate governance indicators are the most important of all ESG indicators across all sectors. Sell-side analysts look at extra-financial information to a lesser extent than investors. (ECCE, Survey 2007)

5.2.4 Stating Financial Value

Not all companies are aware of the benefits of issuing a sustainability report. This is therefore a significant hindrance for sustainability reporting to become a mainstream practice.

We found out that 54 percent of the G250 have disclosed business opportunities and/or financial value of corporate responsibility. This value could be in terms of bottom line savings due to efficiency or risk aversion, or top line growth due to new innovations in products and services as a direct response to social or environmental challenges. (KPMG, Survey 2008)

The top industries reporting on business opportunities of sustainability reporting are forestry, pulp, paper, and utilities. These are usually the hardest hit sectors on sustainability issues. However some industries with a high impact on sustainability have low prevalence like the automotive industry. (KPMG, Survey 2008)

According to the KPMG survey, in large economies, such as Brazil and the United States, only about 40 percent of companies are calculating financial value of sustainability reporting. France and Switzerland, who are leaders in presenting sustainability data jointly with the annual financial report, lag in their ability to report on the business case for sustainability. (KPMG, Survey 2008)

Sixteen percent of the G250 companies quantified the value of sustainability performance exclusively for their analysts and investors. This could mean that companies are not capturing the awareness of mainstream investors and analysts through their report-

ing. According to the KPMG survey there was hardly any evidence that investors were a direct target of the sustainability reports. (KPMG, Survey 2008)

Regulation, especially carbon emission regulation, can have a large impact on companies' activities. For example, a country may introduce legislative restriction on the amount of carbon dioxide a company is allowed to emit. Nevertheless only around 35 percent of respondents in the McKinsey survey state that their companies have quantified potential impact of environmental and social regulation on their businesses. Only 40 percent are ready to deal with upcoming regulation in the next three to five years. (McKinsey, Survey 2010)

According to the sustainable value creation survey businesses that are very dependent on energy often see a direct link to reduce energy consumption and savings. A few companies stated in the sustainable value creation survey that they see sustainability as a new exciting business opportunity which could give them a competitive advantage. (Sustainable Value Creation, Survey 2009)

ECCE survey stated non-financial information is considered to have higher impact on brand and reputation than on a company's financial value and performance. Companies with a high score on ESG criteria however, seem to be rewarded with premium valuation. On the other hand companies that score low seem to be penalized with a lower valuation. A negative bias means that low scores have a more distinct effect on valuation than do high scores. (ECCE, Survey 2007)

5.2.5 Management Systems

According to the McKinsey survey, the best strategies are ineffective unless robust and accountable managements systems are in place to ensure they are implemented cohesively and consistently. Management systems help facilitate the process to identify sustainability issues. Without a proper management system there is no guarantee that sustainable goals are actually being carried out. Therefore, the lack of a system hinders the implementation of valid sustainable practices.

We found out that 64 percent of the G250 presented an established system for managing, measuring, and reporting on sustainability issues. Companies without these management systems are in danger of issuing reports that do not reflect their true performance. (KPMG, Survey 2008)

It could be difficult for management systems involved with sustainability to be beneficial if there is insufficient follow up. In the sustainable value creation survey, the board of directors stated that they follow up at least once each year on issues concerning the environment, anti-corruption, responsible business conduct and health, working environment and safety. Most of the remaining directors claimed to do so only as needed. For human rights and labor rights more than 25 percent of boards discuss these issues frequently at least once each year. The majority of 61 percent only follow up as needed. In terms of human rights issues 10 percent of company boards do not follow up at all. (Sustainable Value Creation, Survey 2009)

Half of the companies lack management systems for objectives and a structure for feedback. In the case of bonuses for company management are normally linked to short-term results than to a long-term perspective for sustainability. There are only in very excep-

tional cases that companies have a direct link between targets for their work towards sustainability and management bonuses. (Sustainable value creation, Survey 2009)

5.2.6 Stakeholder Engagement

Stakeholders are the most affected by a company's choice of environmental policies and often have little influence on the company's policies. We think it would be fitting for companies to report on their cooperation with stakeholders to allow for a broader and more sustainable relationship between the two.

In the sustainability reports of the G250 companies 65 percent present information about their stakeholders, who they are and how they are engaged. This reporting creates greater transparency and comfort to stakeholders. Stakeholder dialogue is a vital part of making the sustainability credible. 25 percent of the G250 companies claim to use stakeholder feedback for reporting purposes. Without a direct contact with stakeholders a company may risk leaving key issues out of their reports. According to KPMG:

Some of the best-established forums for stakeholder communications include the least utilized for sustainability issues: annual general meetings (AGMs) analyst presentations, and direct interactions with customers. This could be an indication that sustainability is not fully integrated as priority in a company's main operations. It may also be a reflection, especially in the G250 population, of a lack of attention paid to environmental risks and opportunities by investors and other providers of capital. (KPMG, Survey 2008)

When questioning the boards of the top 100 Swedish companies on Stockholm OMX 75 percent believe that they possess the expertise necessary for following up sustainability work. Many years of management experience in international companies and work on responsible business conduct are more valued than specific expertise in areas of sustainability work. In the human rights area, 25 percent of the companies have not evaluated their board's expertise. A few companies stated that their boards take on external expertise as needed. This assistance is most likely to be a one-time occurrence. In order solve a specific problem that has recently occurred. (Sustainable Value Creation, Survey 2009)

Several companies declared that the reason policies are limited to their own operations is the difficulty of setting the limits of for the company's responsibility. Among the companies that have policies that apply to a large extent of their value chain have regularly performed stakeholder analysis to be able to set limits for the company's responsibility. (Sustainable Value Creation, Survey 2009)

5.2.7 Formal Assurance

Assurance of sustainability reports can be important for sustainability reports to be credible and one step closer to aiding in creating a mainstream practice. Without assurance there is no way to validate reports for investors. Therefore, it is a hindrance if there is no valid system of assurance for investors to rely on.

Only 40 percent of the G250 companies used formal assurance in 2008. The top three sectors with the highest percentage of reports with formal assurance are the mining, utilities, oil and gas. This could be because of their high impact on the environment. The

forestry, pulp, and paper industry have no formal assurance of their sustainability reports although they have a high impact on the environment. (KPMG, Survey 2008)

50 percent of the G250 use complete assurance of the sustainability report. The other half choose to only assure specific parts or sections of the sustainability report. (KPMG, Survey 2008)

Out of the G250 companies 62 percent choose to follow the ISAE3000 assurance standard and 33 percent choose to follow the AA1000AS assurance standard. (KPMG, Survey 2008)

Out of the G250 companies 51 percent choose limited or negative assurance method, 30 percent choose positive or reasonable assurance method and 14 percent choose a combination of limited and reasonable assurance method. (KPMG, Survey 2008)

The sustainable value creation survey came to the conclusion the third-party assurance is used only to a limited extent in sustainability work. (Sustainable Value Creation, Survey 2009)

5.2.8 Third Party Commentary

Third party commentary is the opportunity for experts and stakeholders to comment on the sustainability reports positive and negative aspects. This commentary is an important tool to develop the sustainability report further, while the lack of third party commentary is a hindrance for sustainability reports to become a mainstream practice.

We found out that 27 percent of the G250 use third party comments in their sustainability reports. Only 7 percent of the G250 companies however, use both formal assurance and third party comments. Third party comments could be from nongovernmental organizations, academics, experts and stakeholders panels. (KPMG, Survey 2008)

The respondents from the sustainable value creation survey believe that independent reviews are considered necessary to make sure that staff follows their rules in regard to anti-corruption. (Sustainable Value Creation, Survey 2009)

6 Discussion

There have been significant conclusions and identifications of gaps in the field of sustainable reporting identified by this study. First, with qualitative interviews and field research, a understanding of the current state of sustainable reports was developed which allowed for further analysis of its process and implementation.

From the interviews and secondary data a model was developed to identify the process and break it into steps to allow for a closer study of the more specific aspects involved with reporting. In each step there were obstacles that were identified for having a standardized reporting framework that companies are willing to implement.

- **Identify and Develop the Aspects of the Report:** Within this step lies the initial obstacle for utilization of sustainable reports. Primarily, there is the cost of analyzing one's operations and looking down the value chain to find the effect on ESG factors. It can be very costly and time consuming especially when the or-

ganizations lack sufficient knowledge and training to conduct the analysis themselves.

- **Choose Reporting Framework:** As previously stated this step is tied closely to the first step because what one reports on depends on what framework one uses. Here there are many different frameworks to choose from which all are not sufficiently all encompassing to give investors a proper idea of the companies ESG impacts. The frameworks available are mostly voluntary while others are required by law in a few pioneering countries. The lack of a standard universally accepted framework makes it difficult for these reports to play a larger role in the investment process because the reports are difficult to compare.
- **Conduct an Independent Assurance:** Here in the final step, another set of obstacles needing to be tackled were brought about. Because assurance takes place after the identification of ESG factors and selection of framework, it is even less likely that it will be useful to the investor at this point. The answers from the interviews confirmed this because there is no standard method for sustainable reporting it is difficult to legitimize an assurance process.

6.1 Hindrances

In the hindrance analysis, many numbers and results from studies were shown to demonstrate the current hindrances and the level of severity of each one. In the sections we saw there was movement forward and an expressed desire to further utilize sustainable reports. The sections and their summaries are as follows:

Compliance: Here we see high percentages of managements expressing interest in sustainability and stating it should be of top priority. Sweden is the focal point as it is one of the most advanced countries in sustainable reporting because all state owned companies or companies with a state interest are required by law to use the GRI to do a sustainable report. Even here however, there is evidence that there is not a complete follow up for sustainability down the value chain. Furthermore, most effort is put on environmental issues and the other areas of social and governance factors are more overlooked.

Disclosure of detail: It is important to have a high level of transparency and accountability in order to have a valuable sustainable report. Without proper communication a financial analyst is unable to fully assess the risk involved with the companies ESG factors of operation.

Sustainability indicators: The lack of a universally accepted methodology for quantifying ESG indicators could make it difficult to integrate non-financial information into investment analysis.

Stating financial value: Non-financial information is thought to have a higher impact on brand and company reputation than on a company's financial value and performance. Another heavily weighted hindrance is a quantifiable connection between ESG performance and financial performance. We have seen that there are theories behind the financial value of utilizing sustainable strategies, however until clear financial benefits are seen it will be more difficult to get a larger number of companies to invest in ESG factors and report on them.

Management systems: The best strategies are ineffective unless robust and accountable managements systems are in place to ensure they are implemented cohesively and con-

sistently. Without proper goals and management systems to follow up on them it is unlikely a report can contain trustworthy and functional information to be evaluated upon.

Stakeholder engagement: Awareness of stakeholders and their impact on companies is constantly increasing and is one of the major pressures for companies to adapt sustainable practices and policies. The majority of awareness seems to be in the countries with larger economies whereas there is less awareness in developing and recently developed economies. It is important for there to be a recognizable need and demand for transparency of ESG factors by stakeholders. This is and will continue to be a driving force of sustainability as long as the societal agenda continues to push for higher levels of sustainable practices.

Internal auditing: A very useful method for obtaining more reliable information could be for companies to have an internal auditing system for non-financial concerns. However this is impractical for smaller companies as it would be too expensive to maintain.

Formal assurance: There are assurance methods for sustainability reports however assurance has not received very high credibility because there is no standardized reporting method. Before assurance can become a valuable tool for companies to use on non-financial reports the initial steps of the process must be made sounder.

Third party commentary: Another useful tool for sustainability is the use of third party commentary. This tool is not widely used and its value is not yet fully appreciated. When stakeholders' considerations play a more dominant role in how companies behave, third party commentary will be more widely used.

6.2 Where to now? Further research and benefits of the study:

We have gathered information and consolidated many studies including one of our own to get an idea of the direction of sustainability through sustainable reports. Now that there is a process laid out by our model and a list of the most prominent hindrances, there is a direction to be taken for broadening the use and importance of sustainable reports. From here future research can look at the hindrances and start from the beginning of the process to be able to create a standardized reporting framework in which investors can compare companies. The GRI is on the right path and with more support from governments and corporations the progress can be greatly accelerated.

The GRI has its goals to become the useful tool sustainable reporting has the potential to become. It stated this vision as: "The GRI vision is to improve corporate accountability by ensuring that all stakeholders—communities, environmentalists, labor, religious groups, shareholders, investment managers—have access to standardized, comparable, and consistent environmental information akin to corporate financial reporting." (Ceres, 1997, cited in Levy et al. 2010: 95)

They are the current prominent reporting framework. Support for the GRI is coming from renowned and influential institutions, organizations, and governments. One example of its influence is that it has been passed as legislation in Sweden that all state owned companies use the GRI as a framework for sustainable reports.

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