January 3, 2007
ABA SEER Year-in-Review

International Sustainability Developments: ISO Standards, Financial Standards, Reporting

By William R. Blackburn

ISO Standards on Sustainability/Social Responsibility

- ISO 26000 Social Responsibility Guideline Standard (Draft)

In 2004, ISO approved a New Work Item Proposal, calling for the development of an international "guidance standard" on "social responsibility" (SR)—a concept like the popular "corporate social responsibility" (CSR), but applicable to all types and sizes of organizations. More specifically, the new standard is to provide practical guidance on how to operationalize SR, engage stakeholders, and enhance the credibility of SR reports and claims. It is to complement the plethora of international CSR and sustainability initiatives that already exist, such as the Global Compact, UN Declaration of Human Rights, the Global Reporting Initiative's Sustainability Reporting Guidelines, Social Accountability 8000, and various OECD and International Labour Organization standards, norms, and tools. Unlike the familiar ISO 9001 quality management system standard and ISO 14001 environmental management system standard, 26000 is not to be a "plan-do-check-act" management system standard or a specification standard for certification. Nor is it to include social obligations or expectations of the type properly defined by governments. Nearly 400 experts from over 60 countries and liaison groups are involved in the development of 26000.

The second draft of ISO 26000 was prepared in October in preparation for the fourth meeting of the delegates in early 2007. The concept of SR as captured in the draft is similar to the "triple bottom line" of economic, social, and environmental responsibility attributed to the concept of sustainability, except that the former excludes the financial viability of the organization. The text presents a number of general, substantive and operational SR principles to be followed, and provides guidance on the following seven categories of SR topics: organizational governance, environment, human rights, labor practices, fair operating practices, consumer issues (including users of services and product responsibility), and community involvement/society development. The guidance identifies the core issues under each category, their relevance to SR, key considerations and references. Another chapter provides help on implementing SR, including sections on analyzing SR and stakeholder context, and on working with stakeholders. It also contains content many would associate with ISO 9001 and 14001: integrating SR into operations (vision, mission, policies, planning, setting objectives and targets, raising awareness, etc.); reviewing performance (monitoring, management review, etc.); and reporting and communications. How this will be reconciled with the prohibition on management systems has yet to be determined. Also to be resolved is how to meet the ambitious objectives for the standard in a way that is of value to large and small organizations alike. Indeed, the ISO drafters recognize much work is still to be done.

- ISO 9004 Sustainability Management System Guideline (Draft)

Under the leadership of the British Standards Institution as secretariat, ISO is in the preparatory stages of developing an updated version of its ISO 9004: 2000 standard, the ISO 9001-related document entitled "Quality Management Systems—Guidelines for Performance Improvement." But unlike the popular 9001 quality management system standard, the 9004 draft indicates it is not intended for certification or regulatory or contractual use, nor as a guide to the implementation of 9001 itself. Rather, the new 9004 proposal, labeled "Managing for Sustainability—A Quality Management System Approach," provides guidance to organizations on how to achieve "sustainability", (although that term has yet to be defined in the document). Still, the draft 9004 is based on the same methodology and principles that underlie the 9001 standard. More specifically, the new 9004 would present an approach defined by the following elements: (1) management responsibility, (2) organizational identity, (3) organizational environment, (4) strategic planning (including risk identification and management), (5) structure and communication, (6) business planning, (7) resource management (including the effective use of natural resources), (8) people in the organization, (9) processes, (10) measurement and analysis, and (11) continual improvement (including a focus on learning and innovation). Sustainability aspects are incorporated in a number of provisions. For example, the proposal indicates that to be sustainable, an organization must meet a diverse range of stakeholder needs and expectations. It then suggests thirty sustainability indicators that can be used to measure the satisfaction of various stakeholder groups. The draft asks that the organization communicate with internal and external stakeholders to keep them informed and solicit their feedback. It also urges that a "life cycle management" approach be used in planning to identify and minimize environmental burdens across the full life cycle of products and services.

<u>Financial Standards Related to Sustainability</u>

- IFC Social & Environmental Management System Requirements

The International Finance Corporation (IFC) is the investment arm of the World Bank that funds private sector projects in developing countries. The IFC imposes certain environmental and social responsibilities on those who borrow its funds. In 1998 it adopted "Safeguard Policies" setting forth its standard loan conditions concerning social and environmental matters. In 2006, it updated and recast these conditions in a *Policy on Social and Environmental Sustainability*, which includes new *Performance Standards*.[1] The Performance Standards require IFC loan projects to undergo an assessment of environmental and social risks and opportunities. Projects with significant environmental or social impacts require a social and environmental management system. The system must include an action plan based on the assessment, organizational capacity (resources, management support, structure, roles and responsibilities, etc.), training, community engagement, monitoring, and reporting.

- Revised Equator Principles

The IFC requirements also serve as the foundation of the *Equator Principles*, a set of environmental and social standards endorsed by forty financial institutions around the world, including Barclays, Citigroup and Credit Suisse. The principles, which were updated in 2006 to reflect the recent changes made by the IFC, are applied by the banks to investment projects of $10 million or more.[2] While some critics have complained that the new principles lack robust governance and accountability mechanisms to assure compliance, many other observers have applauded them as an important step forward.

<u>Public Reporting on Sustainability Performance</u>

- Global Reporting Initiative's New Sustainability Reporting Guidelines

The Global Reporting Initiative (GRI) Sustainability Reporting Guidelines and related Framework are developed through an extensive global multi-stakeholder process. The GRI Guidelines, the most popular of its type, provide guidance to organizations of all kinds and sizes on the public reporting of their sustainability performance. In October 2006, GRI launched its third edition of the guidelines—termed G3--at a conference it hosted in Amsterdam, with headline speakers including former US vice president Al Gore, the EU's Margot Wallstom, and UNEP's Achim Steiner.

The new guidelines call on organizations to include five major components in their reports: a strategy and analysis section, an organizational profile, a section on governance and commitments, a discussion of management approach, and performance indicators. Model indicators are provided under economic, environmental, and social categories-- the latter itself comprising four categories covering labor practices, human rights, society, and product responsibility. Reporters are urged to provide certain contextual management information, termed "Disclosure on Management Approach" for each of the six categories. Each indicator is supported with an explanatory indicator protocol. To complement the general guidelines, the GRI Reporting Framework also includes an evolving set of sector supplements providing additional indicators and more focused guidance for particular industries and other groups.

In addition, the new GRI document provides general guidance on building the reporting process and communicating about it. Reporting principles are offered for helping reporters decide what to report (materiality, stakeholder inclusiveness, sustainability context, completeness) and how to achieve a good quality report (balance, comparability, accuracy, timeliness, reliability, and clarity). These principles can assist organizations in selecting from among the indicators offered by GRI as well as aid them in developing others appropriate to their operations, products, and services. Different levels of application of the guidelines are defined to help new reporters get started and, over time, progress to more sophisticated stages or reporting. These levels are also used to classify reports that are registered on the GRI web site.

In an effort to improve the compatibility between the GRI sustainability reporting guidelines and the UN's Global Compact, the most popular code of organizational sustainability behavior, the two groups announced they have formed an alliance. Organizations endorsing the Global Compact are expected to report their progress toward fulfilling their Compact obligations, and the UN is encouraging the use of GRI-based reports for that purpose. Further collaboration between the Global Compact and GRI is planned to make their two frameworks even more complementary in the future.

- U.K. Business Review

A 2005 U.K. law, adopted pursuant to the 2003 European Union Accounts Modernization Directive, requires the largest publicly traded companies in the country to include within their annual financial reports a Business Review, providing a comprehensive analysis of the development and performance of the company and its position at year-end. Prior to 2006, the law stipulated that an analysis related to environmental and employee matters be inserted where needed to help understand the review information. In 2006, the U.K. amended the law to call for companies to report on supply chain, social, and community issues, too, and to include information about the effectiveness of the organization's policies on the covered sustainability topics. Companies must also provide, where appropriate, an analysis of key performance indicators related to their employee, supplier, and environmental matters and social and community issues.[3] The country's Accounting Standards Board issued guidance in 2006 on how to prepare text in financial reports on such non-financial topics. The U.K. Department of Environment, Food, and Rural Affairs, for its part, published reporting guidelines on environmental key performance indicators that could be considered in preparing a Business Review.[4]

The new Business Review requirements follow in the wake of rules adopted over the last few years in France and South Africa, which also mandate the inclusion of environmental and social information in financial reports. As a growing number of investors demand such information, both for ethical reasons as well as to better assess long-term financial risk, other countries are expected to adopt similar requirements.

---

[1] http://www.ifc.org/ifcext/policyreview.nsf/content/home

[2] http://www.equator-principles.com/documents/Equator_Principles.pdf , http://www.equator-principles.com/

[3] Companies Act 2006, Nov.8, 2006, clause 417 (UK), available at http://www.opsi.gov.uk/index.htm.

[4] UK Department for Environment, Food and Rural Affairs, *Environmental Key Performance Indicators: Reporting Guidelines for UK Business* (2006), at http://www.defra.gov.uk/environment/business/envrp/envkpi-guidelines.pdf.