



2012

Report on the Scope and Quality of CSR Reports from the World's Largest Corporations

*How large corporations around the world communicate
the impact of their nonfinancial activities*

Baruch
COLLEGE

ZICKLIN
SCHOOL OF
BUSINESS
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Business



CSR-Sustainability Monitor™

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EXECUTIVE SUMMARY

THE CSR-SUSTAINABILITY MONITOR™ **An Analytic Tool for Comparing Corporate** **Social Responsibility Reports**

The last decade has witnessed rapid growth in the publication of corporate non-financial reports. These reports may be called corporate social responsibility, global citizenship, or sustainability reports; for brevity, we use the acronym “CSR” for corporate social responsibility to cover the entire genre. These reports have largely been a response to the public’s interest in both corporate accountability and sustainability issues.

There is no standard format to CSR reports, so as the number, length, and diversity of these reports have steadily increased, so has the difficulty for the readers—investors, analysts, and other concerned stakeholders—to evaluate the substance and comprehensiveness of the issues covered.

To address this challenge, researchers at the Weissman Center for International Business, under the direction of University Distinguished Professor S. Prakash Sethi, have developed the CSR-Sustainability Monitor (CSR-S Monitor), which is an analytic framework for the systematic and objective evaluation of CSR reports. The CSR-S Monitor:

- Offers a range of objective measures for comparing reports in terms of their comprehensiveness, specificity of detail, quality, and accuracy of reporting.
- Provides internal corporate accountability officers with an external and independent evaluation tool, and provides guidance for companies initiating their own CSR reporting.
- Enables companies to compare their reports across their industry, region, and market capitalization.
- Minimizes the “free rider” problem; the facilitated comparison of report quality will induce all companies—both those currently publishing corporate social responsibility reports and those planning to do so in the future—to create high-quality reports.
- Creates a market-driven incentive for companies to improve their CSR reporting to gain competitive advantage, as an alternative to greater regulation in this area.

The 2012 report describes in detail the CSR-S Monitor, and includes examples of its analytic results drawn from the 560 companies from around the world that are included in its sample. It also ranks the top companies, the strivers, the also-rans, and those companies just making a start in terms of their CSR-S Monitor scores.

Additionally, the 2012 report provides “big-picture” findings that suggest that individual corporate culture and leadership characteristics play a significant role in the quality and scope of corporate social responsibility reporting. For example, these findings show that:

- There is a wide range in the quality and coverage of CSR reporting by companies included in the sample.
- North America, Western Europe, and East Asia stood out in terms of the geographic regions with the highest absolute number of companies issuing CSR reports. Western Europe had the best results in terms of average company scores and reporting rates.
- Latin America and the Caribbean, the Middle East and North Africa, Eastern Europe and Central Asia, Oceania, Sub-Saharan Africa, and South Asia were small sample sizes in absolute terms.
- Latin America and the Caribbean had a disproportionately large number of corporations with relatively high scores for their CSR reports. There are two possible explanations for this phenomenon. The first is that the total number of companies with CSR reports is quite small given the large number of countries covered in the group. This would suggest that only companies with strong CSR activities have opted to publish their reports. The second possible explanation is that companies in the region issuing CSR reports belong to industry groups (mining, basic materials, and oil & gas) where there is strong public pressure for greater accountability and transparency.
- There are considerable differences in scores among the 24 industry sectors covered by the report.
- The top-scoring companies in different countries and industry sectors typically exceeded their group averages by large margins, in some cases by more than 100 percent.
- The top-scoring companies were not the largest companies measured by revenue in their respective categories.

Finally, the report provides detailed information about company performance with regard to two of the eleven contextual elements contained in the CSR-S Monitor's analytic framework. The first of these two elements is *Environment & Sustainability* and the second is *Philanthropy & Community Development*.

Separate from the quality and scope of the reviewed CSR reports, the 2012 CSR-S Monitor also reveals that independent *third-party assurance* is frequently underutilized or not present in many CSR reports, and remains a weakness in many CSR reports.

The CSR-S Monitor allows for the review of results from a “macro” perspective—analyses by industry, by region, or by country—but also provides customized, detailed reports on individual companies. These analyses include further breakdown of a CSR report within each factor in the CSR-S Monitor, along with guidance on how to improve the information content. This service allows for more incisive comparative analysis and benchmarking between a company's own CSR report and the CSR reports of competitors and other firms.

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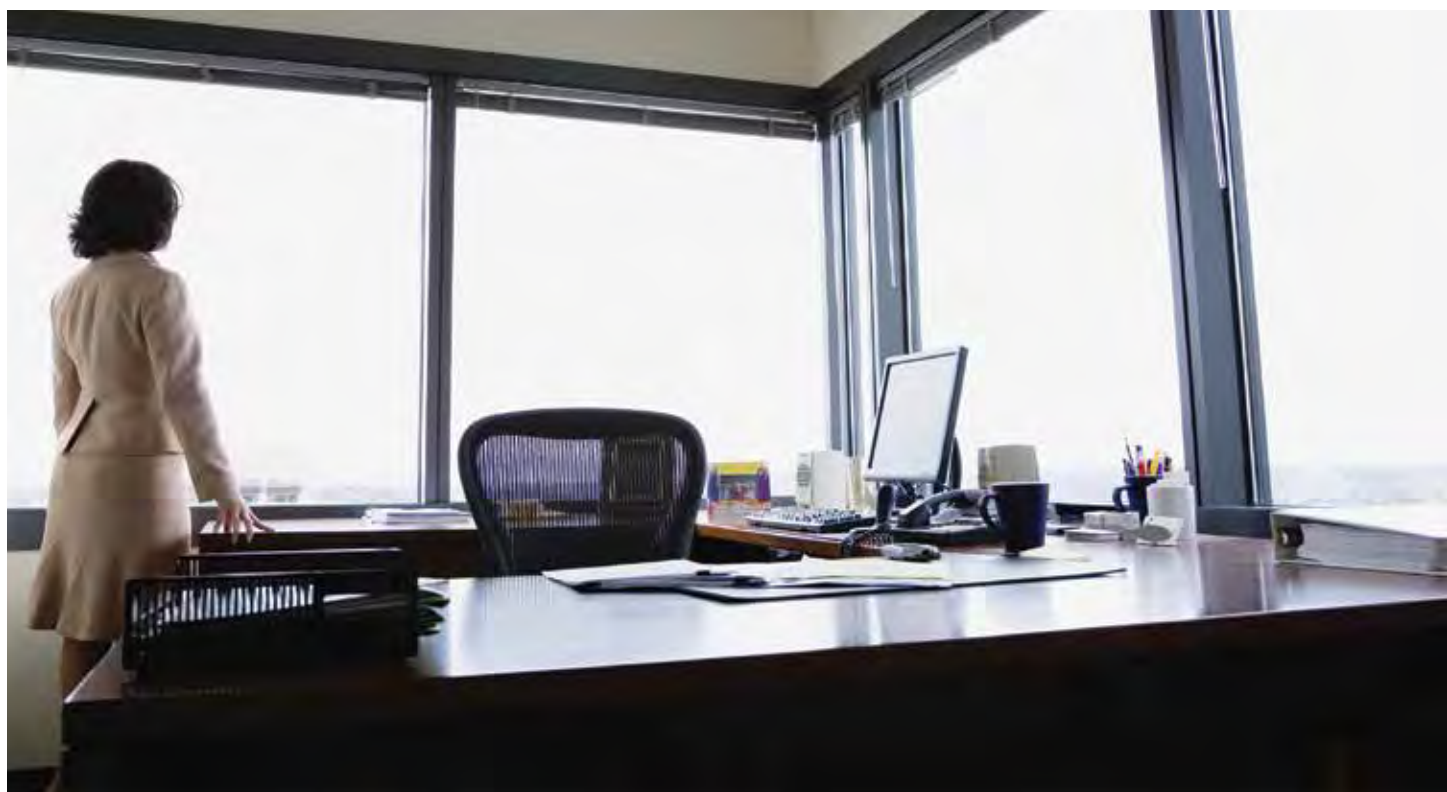
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1 | **EMERGING TRENDS IN CORPORATE SOCIAL RESPONSIBILITY REPORTING**

There has been growing public concern about the impact of corporate strategies and operations on the physical, economic, and sociopolitical environments. This concern is expressed in all parts of the world. CSR reports have become an important medium of corporate communications on the nonfinancial aspects of a company's performance. These nonfinancial aspects have significant implications for a company's internal and external stakeholders, including institutional investors, public pension funds, civil society organizations, regulators, and news media. Financial analysts often view adverse public opinion on corporate social performance as a measure of long-term reputational risk to a company's market value. Furthermore, CSR reports have become a competitive tool in reaching the company's intended audiences when compared with its peers and competitors.

OPPORTUNITIES AND CHALLENGES

CSR reports afford the corporation maximum opportunity to deliver its message with total control over the medium. A high-quality CSR report can play a critical role in building and sustaining corporate reputation.

However, this advantage also places a heavy burden on the report's issuer to ensure that its message contains a sufficiently high level of accuracy, specificity, and materiality to cultivate public trust in the corporate message. A poorly prepared CSR report carries a collateral risk of negative reputation when compared with other CSR reports from its industry peers, or competitors, and of having the company branded as a CSR "free rider."

In addition, current CSR reports range across the active spectrum of issues and differ widely in their scope and quality of coverage. Lacking a consistent framework for objective and systematic comparison, CSR reports have limited relevance to the company's important stakeholders and their cost-effectiveness impact on the company's reputation is therefore severely diminished.

2 | THE CSR-S MONITOR

As noted above, there can be wide variability in CSR reporting content and formats. It is a difficult challenge for the stakeholder to evaluate the quality and scope of these reports and to compare one CSR report's relative effectiveness with another. In order to improve comparability, and thus enhance transparency, researchers at the Weissman Center for International Business at Baruch College have developed a content analysis-based system that allows for individual corporate reports to be analyzed on a set of common components that are covered in most CSR reports. The system is called the CSR-Sustainability Monitor or the CSR-S Monitor. The CSR-S Monitor is the product of the Weissman Center for International Business at the Zicklin School of Business, Baruch College, of The City University of New York.

The CSR-S Monitor provides a practical framework for evaluating CSR reports, using standardized measurement tools to provide in-depth analyses of the reports' content. The CSR-S Monitor examines each report for discussion of eleven contextual corporate social responsibility elements. The Monitor measures the firm's commitment along a continuum of: 1) the acknowledgement of problems; 2) the material and specific activities undertaken to address these problems; 3) the publication of measurable results; and 4) whether independent verification and assurance of these results were included in the report. The analysts are trained to provide an objective and consistent analysis of the content in terms of materiality, specificity, completeness, and verifiable integrity. The CSR-S Monitor includes a separate section on the assurance measures, including the existence and inclusion of an assurance statement, the type of assurance provider, and an explanation of the processes undertaken in the assurance engagement. The first implementation of the CSR-S Monitor used data from CSR reports released in 2006–2007; we are currently publishing the third iteration of the CSR-Sustainability Monitor utilizing more recent CSR reports.

An important goal of the CSR-S Monitor is to facilitate a *market-driven* perspective, rather than one of regulation, toward improving the quality of CSR reporting. Internal corporate accountability officers now will have an external and independent evaluation tool for comparing their own CSR reporting to other firms. We believe that as more companies see improved CSR status as a competitive advantage, they will seek to improve their CSR reporting as one facet of that strategy.

3 | THE SAMPLING UNIVERSE OF THE CSR-S MONITOR

Using multiple investment indices, our first round of selection included the world's largest corporations. These corporations also represented a cross-section of industries. The sample, by its very nature, was heavily focused on industrially advanced countries. Therefore, to enhance the quality of representation, we then looked at emerging economies for companies that were large in their own countries but did not necessarily make the list of the world's largest corporations. This final sample includes publicly traded companies as well as family-owned and state-owned enterprises. The process yielded 1338 companies from 24 industries and 47 countries. Of these companies, 749 had issued CSR reports in 2011. This sample was further winnowed down to 560 companies due to time and cost constraints. Our first priority was to analyze reports from companies whose previous reports we had also analyzed. This set constitutes the majority of the 560 reports reviewed. After that, we looked to enhance the breadth of our coverage by analyzing reports from companies in under-represented regions.

Our data represent twenty-four industrial sectors. The largest number of reports is concentrated in the **Finance** sector, at **96** reports analyzed. This is followed by **Utilities** with **44** reports, **Electronics** with **39**, **Oil & Gas** with **36**, **Retail** with **33**, and **Basic Materials** with **32** reports. Combined, these six industrial sectors account for 50 percent of all reports.

Three regions produced 91 percent of the reports in the sample: North America with 212 reports, Western Europe with 200 reports, and East Asia with 99 reports.

A more thorough discussion of the sampling methodology is provided in the Appendix.



4 | THE SCORING METHODOLOGY OF THE CSR-S MONITOR

Under the direction of University Distinguished Professor S. Prakash Sethi at Baruch College, the CSR-S Monitor uses a proprietary rubric to score each CSR report, which is thoroughly examined by multiple analysts. The criteria for scoring each element include comprehensiveness, specificity of detail, quality, and accuracy of reporting.

There are eleven separate elements analyzed for each report. The team analyzed many reports over the years and categorized the topics covered in those reports to develop this exhaustive list of the relevant topics in corporate social responsibility and sustainability. The scores on the eleven individual sections are weighted to provide a total score of 100. The individual components and their respective weights are:

- Integrity assurance, verification compliance, and disclosure transparency (15)
- Environment and sustainability (10)
- Corporate citizenship, philanthropy, and community relations (10)
- Stakeholder engagement (10)
- Supply-chain management (10)
- Labor outsourcing (10)
- Corporate governance (5)
- Bribery and corruption (5)
- Human rights (5)
- Voluntary individual company codes of conduct (5), industry-wide codes (5), and universal codes (5)
- Executive message (5)

The team also tracked information about the format and style of each report, but these attributes are not part of the CSR-S Monitor score.

The work of each analyst is independently verified to ensure that the evaluation metric is consistently employed. The scores are then analyzed to enhance consistency in the scoring system.

The CSR reports of each company are scored between 0 and 100 using the process described above. The CSR-S Monitor provides one overall number as well as scores on the eleven individual components. The average number of non-zero scales per report in 2012 is 8.73 out of 11, or about 79.4 percent. The number of reports that had a non-zero score for all 11 scales is 150 out of 560, or about 26.8 percent, showing that the eleven scales successfully reflect most of what is in those reports. The CSR-S Monitor provides the user with the ability to compare any of the 560 companies analyzed in the report. Some industries have more regulation or public scrutiny, creating an environment that encourages companies to write more complete reports. Similarly, some countries require more specificity as to what a company must include in its CSR report. Therefore we present CSR-S Monitor scores by country, region, and industry.

One specific, important component, which we report on, is *external assurance*. The CSR-S Monitor is the only analytical instrument that compares a company's statements of its accomplishments against the quality of its assurance measures. This unique enhancement to the CSR review process will help increase the quality and verifiability of CSR reports by assessing how transparent a company is with its own assurance measures. We believe that the CSR-S Monitor's assurance approach encourages firms to more explicitly utilize external assurance reviews. By creating a market-driven demand for external assurance of CSR reports, it will be more feasible to separate the firms that are committed to CSR principles and practices from the free riders who merely issue weak CSR reports.



THE CSR-S MONITOR AS A LEARNING TOOL

The goal of the CSR-S Monitor is to improve the overall quality of CSR reports and encourage best practices. The CSR-S Monitor scores in this study will appear, at best, “moderate.” Although there has been research into corporate social responsibility for several decades, only in recent years have companies, on a large scale, included CSR activities and reports in their policies and practices. It is apparent from the moderate scores in the 2012 CSR-S Monitor that many companies are still developing their CSR sensibilities and reporting skills, and we view these scores as baseline scores that will see improvement in the future. No matter the range of scores, the CSR-S Monitor clearly identifies leaders in the various areas of CSR reporting.

Some may interpret the low-to-moderate CSR-S Monitor scores as reflecting an “anti-corporate” bias. Breaking down the scoring, however, reveals that one or more companies earned a perfect score in almost every scored topic in the CSR-S Monitor; in some “hot button” areas, such as human rights or environment, multiple companies earned perfect scores (**Table I**). Integrity assurance remains a tough hurdle for most of these reports, however, and we will address that later.

CSR-oriented firms can certainly attain higher scores in the CSR-S Monitor by using it as a tool to guide the scope, content, and consistency of their CSR reports. In particular, we believe that the higher-scoring companies that have shown a commitment to superior reporting are missing an important opportunity to generate large dividends in terms of public trust and enhanced corporate reputation. In this way, the CSR-S Monitor is not only a *descriptive* tool, it is a *normative* one.



TABLE 1. NUMBER OF CSR REPORTS WITH A PERFECT SCORE BY CONTEXTUAL ELEMENT

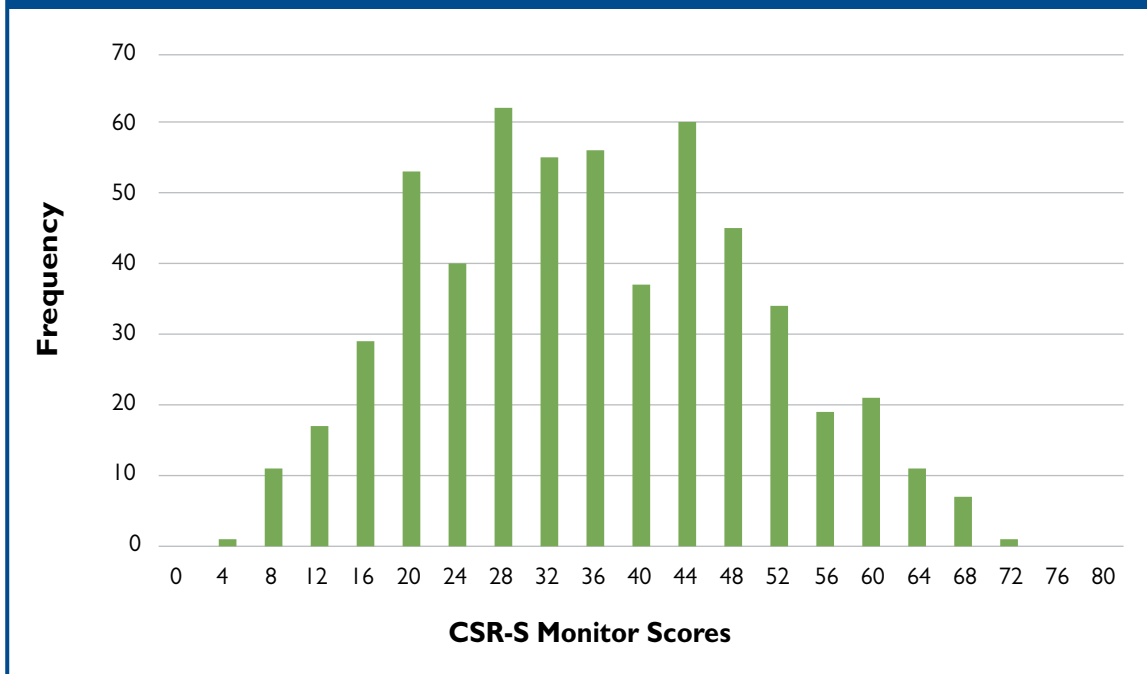
CSR-S Monitor Contextual Element	Number of Reports with a Perfect Score
Environment & Sustainability	20
Philanthropy & Community Involvement	7
Stakeholder Engagement	2
Supply-chain Management	3
Labor Outsourcing	2
Corporate Governance	20
Bribery & Corruption	17
Human Rights	88
Voluntary Codes of Conduct	1
Executive Message	1
Integrity Assurance	0



5 | FINDINGS—THE BIG PICTURE

The analysis from the CSR-S Monitor produced several notable findings. In general, there exists a wide range of CSR reporting quality and coverage. The highest CSR-S Monitor score was 70.75 and the lowest was 3.25. The graph in **Figure I** reflects the distributed range of scores among the companies in the sample.

FIGURE I. DISTRIBUTION OF CSR-S MONITOR SCORES



OVERVIEW OF REGION-BASED FINDINGS

Figures 2 and 3 and **Table 2** provide an overview of the current state of CSR reporting.

- The top three regions in terms of the absolute number of reports were North America, Western Europe, and East Asia.
- North American companies were far less likely to issue CSR reports as opposed to the other developed regions. North America had a reporting rate of 45.1 percent compared to 79.3 percent in Western Europe.
- The sample sizes for Latin America and the Caribbean, the Middle East and North Africa, Eastern Europe and Central Asia, Oceania, Sub-Saharan Africa, and South Asia were small in absolute terms
- Reports from Latin America and the Caribbean received the highest average CSR-S Monitor scores (41.45), though the sample was small.
- The Latin America and the Caribbean region had a disproportionately large number of corporations with relatively high scores for their CSR reports. There are two possible explanations for this phenomenon. The first is that the total number of companies with CSR reports is quite small given the large number of countries covered in the group. This would suggest that only companies with strong CSR activities have opted to publish their reports. The second possible explanation is that companies in the region publishing CSR reports belong to industry groups (mining, basic materials, and oil & gas) where there is strong public pressure for greater accountability and transparency.
- Western European reports were close behind Latin American reports with an average CSR-S Monitor score of 38.87.
- North American companies had a CSR-S Monitor average score of 29.41, which is on par with Middle Eastern companies at an average score of 27.75 and companies from Eastern Europe and Central Asia at an average score of 28.06.

FIGURE 2. NUMBER OF CSR REPORTS ANALYZED BY REGION

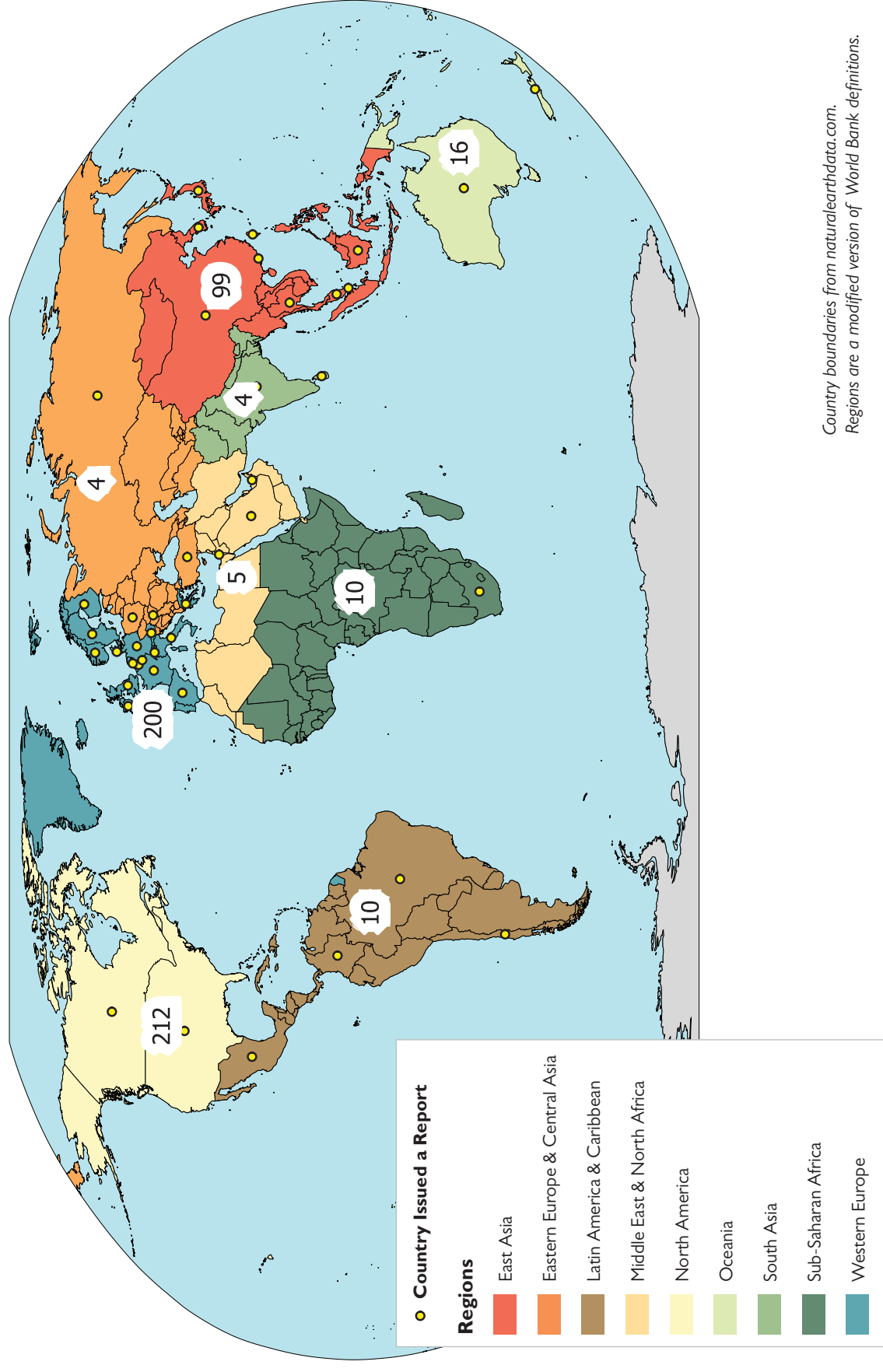
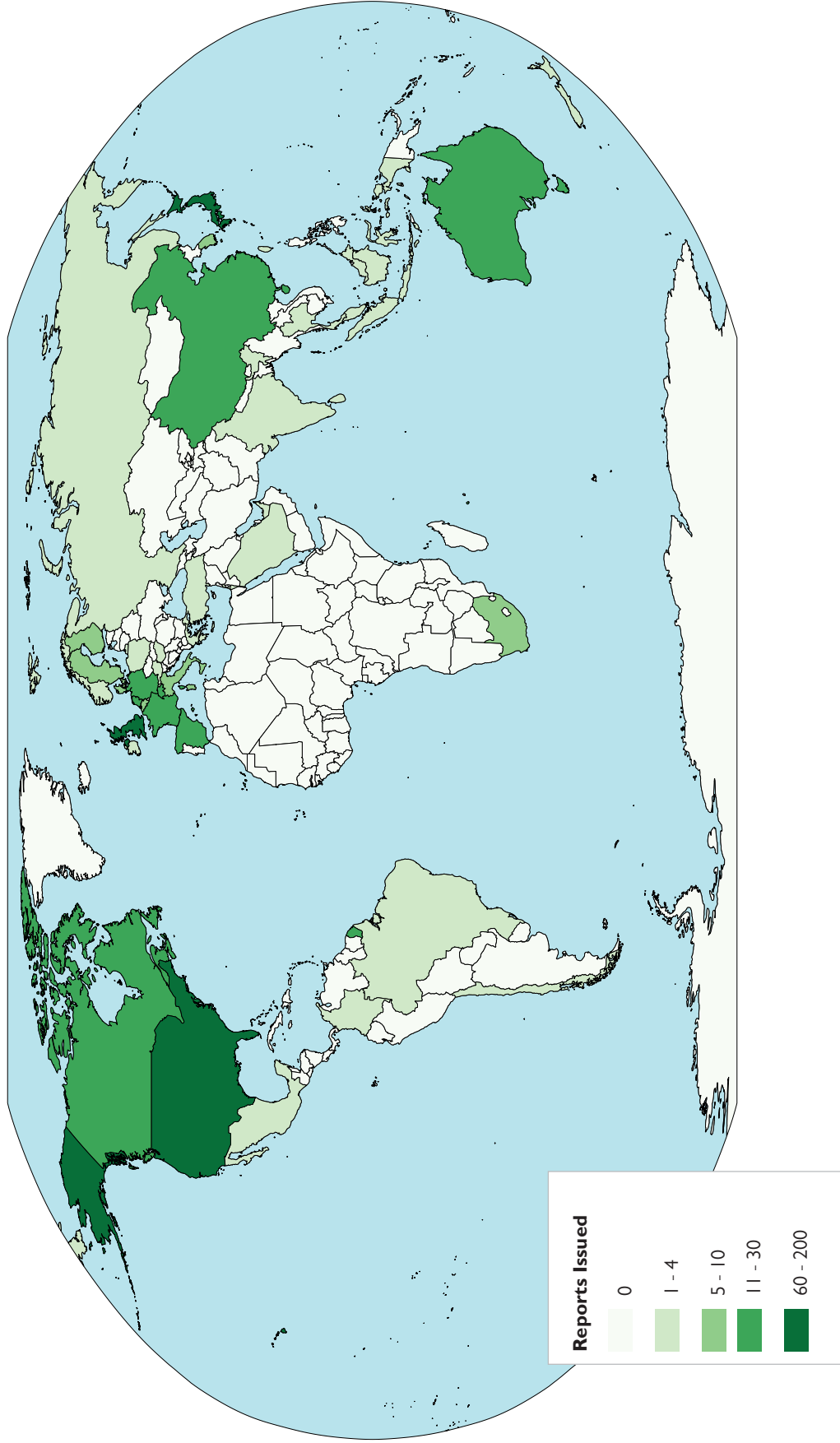


FIGURE 3. NUMBER OF CSR REPORTS ANALYZED BY COUNTRY



Country boundaries from naturalearthdata.com.

The relatively low scores for the CSR reports of North American companies, compared with their counterparts in other industrialized regions, are particularly disconcerting given the fact that the region accounts for over 45 percent of the companies with CSR reports in our database. A notable exception is the CSR report of Tiffany & Co., which was tied for the seventh-highest score in its first published CSR report.

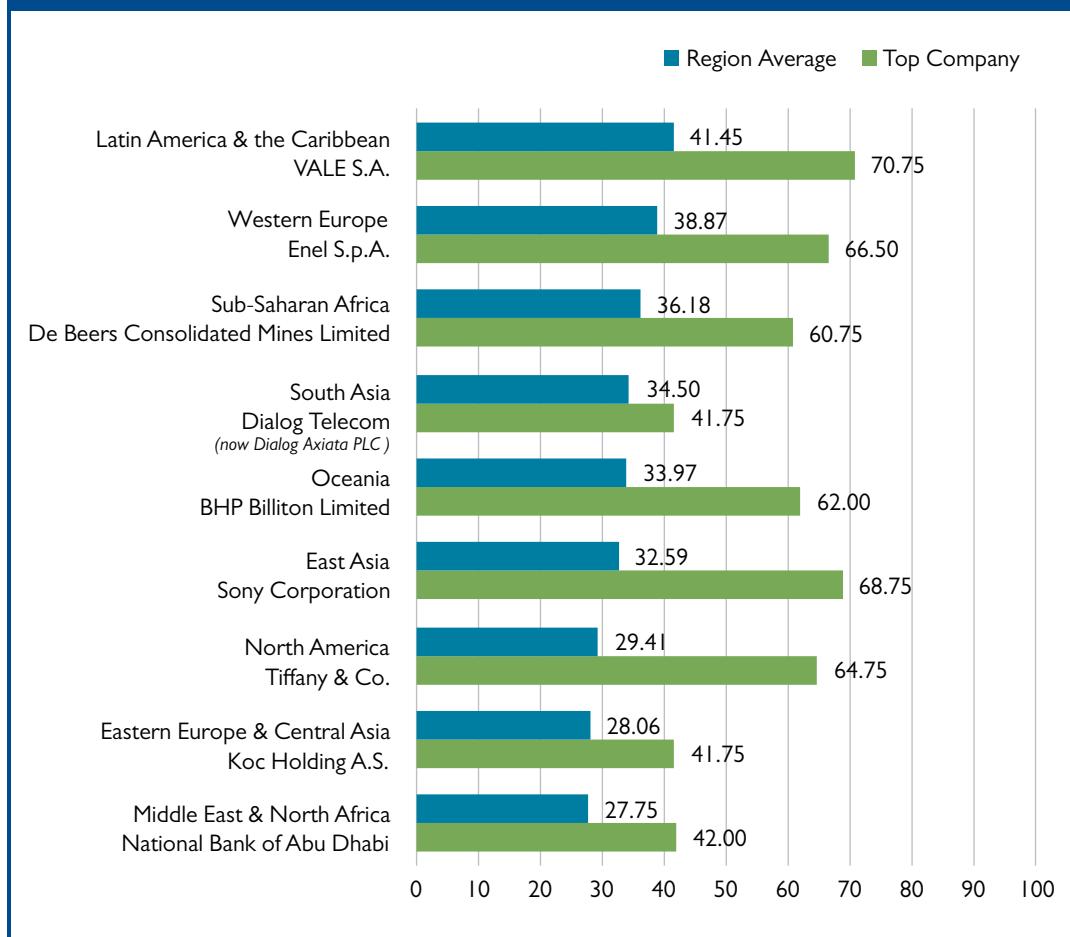
TABLE 2. CSR-S MONITOR REGIONAL OVERVIEW

Region	Companies in Sample	CSR Reports Issued	Reporting Rate*	Reports Analyzed	Average CSR-S Monitor Score	Percentage in Top 25 Overall	Percentage in Bottom 25 Overall
North America	718	324	45.1%	212	29.41	2	17
Western Europe	294	233	79.3%	200	38.87	12	7
East Asia	159	113	71.1%	99	32.59	6	0
Latin America & the Caribbean	43	18	41.9%	10	41.45	3	1
Oceania	30	17	56.7%	16	33.97	1	0
Eastern Europe & Central Asia	29	12	41.4%	4	28.06	0	0
Middle East & North Africa	26	8	30.8%	5	27.75	0	0
Sub-Saharan Africa	21	15	71.4%	10	36.18	1	0
South Asia	18	9	50.0%	4	34.50	0	0

*Reporting Rate = percentage of companies in each region that issued reports. Not all reports issued were analyzed.

Even the higher-performing regions had scores that indicate considerable room for improvement in CSR reporting; high-quality reports do not seem to be the province of a particular region, but the countries with multiple high-scorers tended to come from more industrialized regions. For example, Britain had four companies that scored in the top 25 overall, followed by Taiwan with three, and then Japan, France, Spain, and Brazil with two each. No other country had more than one firm in the top 25. Conversely, the United States had sixteen companies in the bottom 25, followed by Britain with four. With the exception of one company from Chile, the bottom 25 reports were issued by companies in either North America or Western Europe. No other region had more than one firm in the bottom 25. **Figure 4** shows the leaders in CSR reporting in each region. Although not universal, many of the regional leaders scored considerably higher than their respective region's average CSR-S Monitor score.

FIGURE 4. CSR-S MONITOR REGION SCORES: AVERAGES AND TOP PERFORMERS



OVERVIEW OF INDUSTRY-BASED FINDINGS

Our universe of companies has been divided into twenty-four industry categories. First, we applied a variety of standard definitions used by the global investment community to identify companies by industry. We then refined the standard industry categories to enable a more meaningful comparison of CSR reports. For example, in some cases we used more narrowly defined industry groups in order to emphasize the different nature of CSR reporting within that smaller segment, such as Apparel & Footwear versus other Consumer Goods. As is evident from the data in **Table 3**, there were considerable differences in CSR-S Monitor scores between industries. One explanation is that CSR concerns will differ among various industry groups, and CSR reports from different industries will emphasize different CSR topics. In part, this reflects industry characteristics and their impact on the environment and on sustainable business practices, which are unique to that industry. The CSR concerns of different industries are also affected by the regulatory environment, political sensitivity, and relative strength and influence of civil society organizations. Still, although the specific conditions for CSR activities may vary from industry to industry, the contextual elements of the CSR-S Monitor still exist for all of these industries at some level.

Notably, Apparel & Footwear (44.55) and Metal & Mining (43.66) had the highest average industry-wide CSR-S Monitor scores. This appears counterintuitive because both of these industries receive much negative attention on supply-chain, labor, and environmental practices. These findings suggest that these two industries recognize those reputational liabilities and are striving to address them in their CSR reports. Although some industries demonstrate high score averages, the scores are still moderate; no industry has a corner on CSR reporting quality. This indicates again missed opportunities for these industries in setting more effective corporate communications that command considerable public awareness and interest.



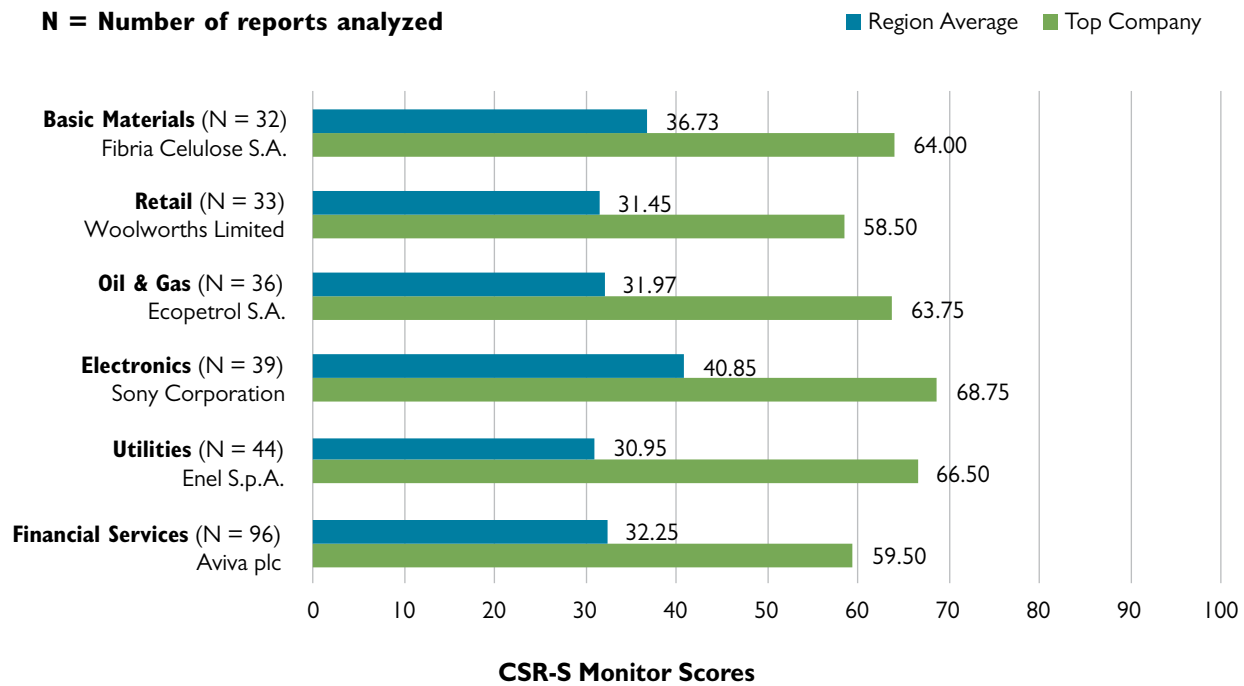
TABLE 3. CSR-S MONITOR AVERAGE SCORES BY INDUSTRY

Industry	Average Score	Number of Reports
Apparel & Footwear	44.55	5
Metal & Mining	43.66	24
Electronics	40.85	39
Telecommunications	39.50	25
Information Technology	38.56	12
Automobile	37.87	23
Food & Beverages	37.68	30
Consumer Goods	37.13	18
Basic Materials	36.73	32
Conglomerate	34.71	12
Containers & Packaging	33.28	10
Financial Services	32.25	96
Oil & Gas	31.97	36
Retail	31.45	33
Utilities	30.95	44
Healthcare	30.84	24
Industrials	30.80	24
Agriculture/Farming	30.25	3
Construction & Engineering	27.50	15
Media	26.67	9
Aerospace & Defense	26.28	9
Transportation	25.23	13
Leisure	25.16	8
Other Services*	25.02	16

*Includes accounting, consulting, employment, marketing, public relations, and advertising, among others

For illustrative purposes, **Figure 5** shows the average and high scores for the six industry groups that had the greatest number of reports in the sample. These six groups cover 280 CSR reports, representing 50 percent of the reports in our sample. Even with low-to-moderate industry averages, these industries have industry leaders in the top 10 percent of CSR-S Monitor scores.

FIGURE 5. CSR-S MONITOR INDUSTRY SCORES: AVERAGES AND TOP PERFORMERS OF THE INDUSTRIES WITH THE MOST ANALYZED REPORTS



6 | FINDINGS CLOSER TO THE GROUND: A LOOK AT SPECIFIC COMPANIES

“Big-picture” findings are helpful at a macro level, but the investor, analyst, or stakeholder needs a tool to identify which companies act in a socially responsible manner. The CSR-S Monitor helps with that decision process by listing specific companies and their scores, as well as showing those companies that are right in the middle of the pack around the median score (**Table 4**).

**TABLE 4. CSR-S MONITOR SCORES:
THE FRONTRUNNERS AND THE STRIVERS**

Top Companies		Companies at the 50th Percentile	
Company	CSR-S Monitor Score (Out of max. 100 points)	Company	CSR-S Monitor Score (Out of max. 100 points)
VALE S.A.	70.75	Dell Inc.	33.00
Sony Corporation	68.75	Hitachi Chemical Co. Ltd.	33.00
Enel S.p.A.	66.50	KT Corporation (former Korea Telecom)	33.00
Telefonica, S.A.	66.25	Tokyo Gas Co. Ltd.	33.00
L'Oreal S.A.	65.00	MOL Magyar Olaj-es Gazipari Nyrt.	33.00
Alcatel-Lucent	65.00	Syngenta AG	33.00
Vattenfall A.B.	64.75	Hammerson plc	32.75
Tiffany & Co.	64.75	Bank of Montreal	32.75
LG Electronics, Inc.	64.50	Mitsubishi Chemical Corporation	32.75
Hon Hai Precision Industry Co., Ltd.	64.00*	WPP PLC	32.75
Fibria Celulose S.A.	64.00*		

* Tied for 10th-highest spot

As can be expected with the even distribution of CSR-S Monitor scores across the report sample, the gap between the leaders—the reports that placed in the top ten—and the companies scoring around the median is large, with the companies at the 50th percentile predictably scoring only about half as well as the leaders. By issuing CSR reports, these companies recognize the usefulness of CSR disclosures. We anticipate that these companies, especially those with CSR-S Monitor scores below the average for their industries, will encounter new competitive pressure to improve their CSR reporting. This new “market” for better CSR reports will drive those companies to produce more effective and meaningful communication with their internal and external constituencies.

The 25th percentile group is concentrated around a score of approximately 20 points, leaving them below the lowest of the industry averages. The best that can be said for the companies at the bottom of the rankings is that they recognize that CSR issues

TABLE 5. CSR-S MONITOR SCORES: THE ALSO-RANS AND THE COMPANIES JUST MAKING A START

Companies in the 25th Percentile		Lowest-Scoring Companies	
Company	CSR-S Monitor Score (Out of max. 100 points)	Company	CSR-S Monitor Score (Out of max. 100 points)
Sun Life Financial Inc.	23.50	Sulzer Ltd.	7.25
Peabody Energy Corporation	23.50	CenterPoint Energy, Inc.	7.00
East Japan Railway Company	23.25	Manulife Financial Corporation	6.00
Honda Motor Co., Ltd.	23.25	ITV PLC	5.75
Lowe's Companies Inc.	23.25	Northwestern Mutual Insurance Company	5.75
SUPERVALU, Inc.	23.25	Celanese Corporation	5.50
AECOM TECHNOLOGY CORPORATION	23.25	Husky Energy, Inc.	5.00
Chevron Corporation	23.00	Unilever N.V.	5.00
KDDI CORPORATION	23.00	Legal & General Group Plc	4.25
Sodexo S.A.	23.00	Pacific Life Insurance Company	3.25
Outokumpu Oyj	23.00		

exist, but their reports suggest that this awareness is at the “lip-service” level **(Table 5)**. However, it should be recalled that even if a company receives a low score, it is doing better than the large number of companies that do not publish any CSR report at all.

An interesting side note is how the companies with reports that placed in the top ten in the previous CSR-S Monitor from 2009 fared in the 2012 rankings **(Table 6)**. A few retained high rankings, but most slipped to lower rankings. There are two likely reasons for this. One is that the 2009 CSR-S Monitor weighted environmental and sustainability reporting more heavily; almost all reports contain some environmental and sustainability reporting, which is discussed in Section 8. This heavier weighting in 2009 tended to boost the final scores of many reports. Also, the 2012 CSR-S Monitor gives more importance to independent assurance of the report; this new emphasis tended to pull down the scores of reports weak in this area.

TABLE 6. CSR-S MONITOR FRONTRUNNERS FROM 2009 AND HOW THEY DID IN 2012

Top 10 Companies – 2009		CSR-S Monitor 2009 Score	2012 Rank	CSR-S Monitor 2012 Score
1	Repsol YPF, S.A.	77.95	23	59.50
2	GlaxoSmithKline Plc	67.50	14	62.75
3	L’Oreal S.A.	66.36	5	65.00
4	TNT EXPRESS N.V.	66.36	150	43.25
5	Petroleo Brasileira S.A. – PETROBRAS	65.68	227	37
6	Lonmin Plc	65.68	98	47.50
7	Telecom Italia S.p.A.	62.05	36	56.75
8	Nedbank Group Limited	61.36	102	47.25
9	Intel Corporation	60.91	32	58.25
10	CRH PLC	60.68	63	51.75

7 | CONTEXTUAL ELEMENTS

As discussed previously in this report (Section 4), the CSR-S Monitor uses a framework that classifies the text of CSR reports into eleven contextual elements covering the spectrum of corporate social responsibility issues. Furthermore, the CSR-S Monitor systematically evaluates the information contained in each category on the basis of comprehensiveness, specificity of detail, quality, and accuracy of reporting. Finally, and perhaps most critically, the CSR-S Monitor provides an evaluation of the measures taken by the company to substantiate the quality and accuracy of information provided in the CSR report.

In the following sections, we analyze two contextual elements that are covered in a large number of CSR reports. The first is *Environment & Sustainability*, which is almost universally present in CSR reports, probably because of the high level of stakeholder and general public interest in the subject. We also cover *Philanthropy & Community Involvement*, which has less of a presence in CSR reports, but nevertheless provides companies with an opportunity to publicize activities that often resonate with the communities where a company's operations are located. Finally, we include an analysis of the extent and scope of integrity assurance provided by the companies in their CSR reports.



8 | ENVIRONMENT & SUSTAINABILITY

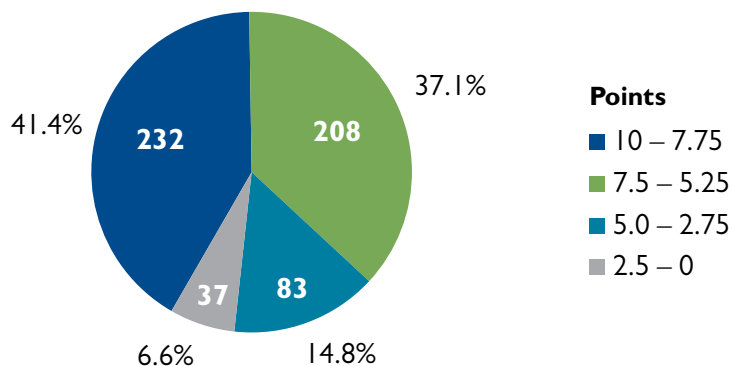
The *Environment & Sustainability* contextual element contains several salient metrics on whether the report:

- recognized environment and sustainability as an issue;
- described specific company activities toward reducing “direct” environmental impacts;
- described specific company activities toward reducing “indirect” environmental impacts;
- described specific commitments in the form of policies, codes of conduct, guidelines, and principles as they pertain to the environment;
- specified important international awards or recognitions received by the company for environmental performance;
- addressed environmental education and training within the company;
- described results (accomplishments) in *measurable* terms;
- included shortfalls and challenges toward future improvement.

Environment & Sustainability was overwhelmingly the most covered topic in CSR reports, with 99 percent of companies addressing these issues. Almost 80 percent received a score of 5.25 or higher, out of a possible score of 10 points for this contextual element (**Figure 6**). For many companies, a respectable score in this element correlated positively with their final CSR-S Monitor score.

FIGURE 6. CSR-S MONITOR ENVIRONMENT & SUSTAINABILITY SCORES

Total number of reports analyzed = 560



Within the major industrialized regions, there was a statistical difference in the environmental scores for North American companies (average score of 6.48), which were slightly lower than the overall average environmental score of 6.75. **Table 7** lists the average score on the Environment & Sustainability section by region, as well as the number of reports analyzed by region for reference.

**TABLE 7. CSR-S MONITOR ENVIRONMENT & SUSTAINABILITY
AVERAGE SCORES BY REGION**

Region	Environment Score (Out of max. 10.00 points)	Number of Reports
Latin America & the Caribbean	7.15	10
East Asia	7.06	99
Western Europe	7.01	200
Middle East & North Africa	6.55	5
North America	6.48	212
Eastern Europe & Central Asia	6.44	4
South Asia	6.38	4
Oceania	5.73	16
Sub-Saharan Africa	5.65	10

9 | PHILANTHROPY & COMMUNITY INVOLVEMENT

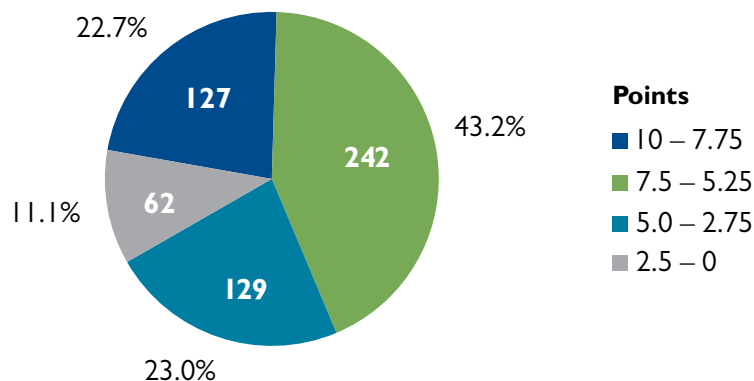
The *Philanthropy & Community Involvement* contextual element is a 10-point scale comprising several salient metrics on whether the report:

- provided information on the scope of activities in terms of community engagement and/or philanthropy;
- provided information on whether those activities were local (in the company's home country) or more far-flung;
- provided specifics for these activities;
- discussed whether contributions were cash or in-kind;
- provided information about the company's support for employee activities in these areas;
- provided information on the target areas (for example, healthcare, education, environment) of its community activities;
- described the company's contributions with reference to its financial resources;
- described the company's activities in relationship to the company's core business activities.

In general, the reporting in the *Philanthropy & Community Involvement* area was not as strong as that seen in the *Environment & Sustainability* area. Twenty-five of the analyzed reports did not address this area at all, versus the almost-universal coverage for environment and sustainability. When scored for providing information on the company's philanthropy and community involvement, over 65 percent of the CSR reports received scores in the upper half of the scale, although the largest concentration of scores was between 5.25 and 7.5 (**Figure 7**).

FIGURE 7. CSR-S MONITOR PHILANTHROPY & COMMUNITY INVOLVEMENT SCORES

Total number of reports analyzed = 560



In the case of the *Philanthropy & Community Involvement* contextual element, there was a bigger spread between the regional averages. Some of this variation may lie in cultural attitudes toward philanthropy, but the low number of reports in some of the regions makes it difficult to provide a definitive judgment (Table 8).

TABLE 8. CSR-S MONITOR PHILANTHROPY & COMMUNITY INVOLVEMENT AVERAGE SCORES BY REGION

Region	Philanthropy Score (Out of max. 10.00 points)	Number of Reports
South Asia	6.50	4
North America	6.26	212
Oceania	6.19	16
Middle East & North Africa	6.10	5
East Asia	5.93	99
Western Europe	5.48	200
Latin America & the Caribbean	4.75	10
Eastern Europe & Central Asia	4.63	4
Sub-Saharan Africa	4.40	10

10 | INTEGRITY ASSURANCE

The effectiveness of a CSR report depends, to a large extent, on the level of credibility that the company's important stakeholders attach to it. These stakeholders include, among others, institutional investors, regulators, non-governmental organizations, and influential opinion leaders. However, because the companies preparing CSR reports have total control over the material they choose to disclose, stakeholders may not consider these reports reliable. One way to counteract this skepticism is for a company to provide independent assurance as to the report's accuracy and completeness of the issues covered.

TREATMENT OF INTEGRITY ASSURANCE IN THE CSR-SUSTAINABILITY MONITOR

In the CSR-S Monitor, Integrity Assurance is measured along two dimensions for a possible total of 15 points. The first dimension pertains to the following specific contextual elements: environment & sustainability, supply-chain management, labor outsourcing, human rights, and bribery and corruption. Each of these five elements is given a maximum score of 1 point if the information provided in the section is verified. The section on codes of conduct is assigned 3 points; 1 point each for corporate, industry, and universal codes. This brings the total possible points for contextual elements to 8.

The second dimension pertains to the external verification of the CSR report in its entirety. Here a report can receive up to 7 points based on the quality and scope of the formal assurance statement provided by an independent external organization with expertise and experience in CSR issues and report preparation. If the report does not contain a formal assurance statement, no points are awarded. Formal assurance statements are provided by two types of organizations:

1. Public accounting/auditing firms (such as one of the Big Four)
2. Specialized integrity assurance provider firms (such as Bureau Veritas or ERM)

A handful of reporting companies have used independent NGOs, academic groups, or other *ad hoc* parties to comment on their reports. The work done by these groups is not considered a formal audit of the data contained in the CSR reports—a point that is often made explicitly by the companies or assurance providers. Therefore, while we have taken note of these cases, we do not award any points for this type of assurance. Allocation of the 7 points available in this category is based on three criteria:

1. The comprehensiveness and scope of assurance. For example, the assurance provider may specifically limit the scope of its inquiry as to the spending levels included in the report, specific activities, time periods, etc.

2. The extent to which the assurance provider interviewed various corporate executives with knowledge of the report's content and direct/indirect involvement in the preparation of the report.
3. The extent to which the assurance provider made visits to sites that were linked to important issues in the report, and met with external stakeholders—e.g., NGOs, community leaders, news media, and regulators with direct/indirect interest in the report's content.

INTEGRITY ASSURANCE FOR SPECIFIC CONTEXTUAL ELEMENTS—FINDINGS

The overall picture suggests that companies need to make greater efforts if they wish to gain any traction toward generating a measure of credibility for the quality of their CSR reports across a broad range of stakeholders with diverse interests. The data presents a disappointing picture. Of the 560 companies, only 9 (1.6 percent) received scores between 6.25 and 8, the top 25 percent of the scoring range, while 366 companies (65.4 percent) received 2.0 points or fewer and a further 114 companies (20.4 percent) scored between 2.25 and 4.0. This means 85.8 percent of all reports scored no more than half the available points in this section. **Figure 8** shows the distribution of scores on integrity assurance for specific contextual elements. **Table 9** lists the 20 companies that scored highest in this section, along with their overall rank, region, and industry affiliation.

FIGURE 8. SCORES FOR INTEGRITY ASSURANCE OF SPECIFIC CONTEXTUAL ELEMENTS

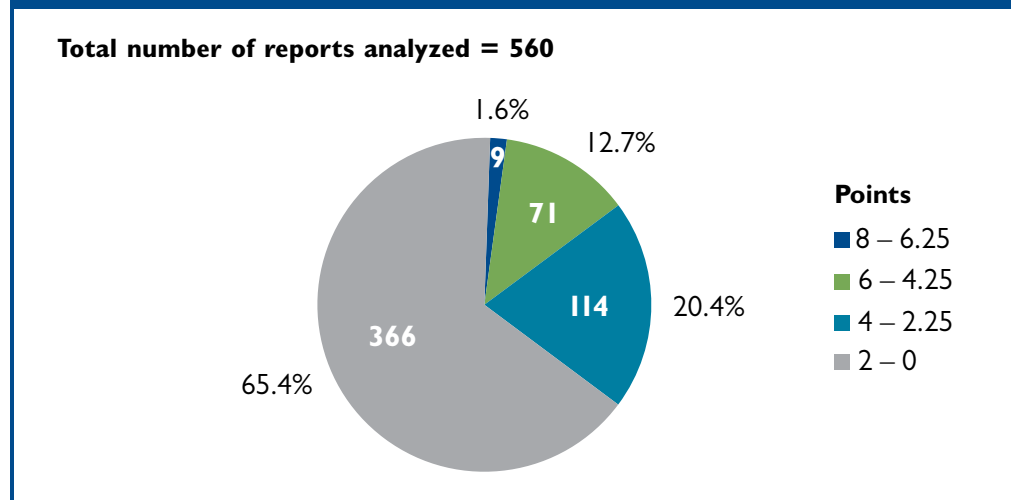


TABLE 9. TOP-SCORING COMPANIES ON INTEGRITY ASSURANCE OF SPECIFIC CONTEXTUAL ELEMENTS AND THEIR OVERALL CSR-S MONITOR RANKING

Top 20 Companies – Contextual Elements Assurance	Contextual Elements Assurance Score (Out of max. 8.00 points)	Overall Rank	Industry Group	Region
VALE S.A.	7.50	1	Metal & Mining	Latin America & the Caribbean
BHP Billiton Limited	7.50	16	Metal & Mining	Oceania
Hon Hai Precision Industry	7.50	10	Electronics	East Asia
Siemens	7.25	35	Conglomerate	Western Europe
Taiwan Semiconductor Manufacturing Company Ltd.	7.25	18	Electronics	East Asia
Woolworths Limited	7.00	30	Retail	Oceania
Teck Resources Limited	6.75	13	Metal & Mining	North America
Kookmin Bank	6.50	36	Financial Services	East Asia
The Siam Cement Public Company Limited	6.25	83	Basic Materials	East Asia
Compagnie de Saint-Gobain SA	6.00	56	Basic Materials	Western Europe
Tiffany & Co.	6.00	7	Consumer Goods	North America
RSA Insurance Group plc	6.00	217	Financial Services	Western Europe
L'Oreal S.A.	6.00	5	Consumer Goods	Western Europe
Fibria Celulose S.A.	6.00	10	Basic Materials	Latin America & the Caribbean
Barclays Bank Plc	6.00	120	Financial Services	Western Europe
adidas AG	6.00	30	Apparel & Footwear	Western Europe
Campbell Soup Company	6.00	110	Food & Beverages	North America
Agilent Technologies, Inc.	6.00	203	Industrials	North America
Bank of America Corporation	6.00	138	Financial Services	North America
BG Group Plc	6.00	115	Oil & Gas	Western Europe

INDEPENDENT EXTERNAL INTEGRITY ASSURANCE LETTER—FINDINGS

The second part of independent external integrity assurance is based on our analysis of the “formal letter of assurance” provided by the independent third-party provider. The CSR-S Monitor evaluates the formal letter submitted by the assurance provider as the most rigorous form of integrity assurance, in part because the assurance provider is staking its own reputation and credibility on the quality of the assurance statement. For purposes of our analysis, we have recognized two groups of assurance providers:

- Public accounting/auditing firms (such as one of the Big Four)
- Specialized integrity assurance provider firms (such as Bureau Veritas or ERM)

CSR-S Monitor scores in this most important category follow a pattern similar to that of contextual elements: a very small number of companies receive high scores while the large majority of scores fall within the lowest categories. **Figure 9** shows that only 19 companies (3.4 percent) received the highest scores of between 6 and 7, while another 87 (15.5 percent) scored between 4.5 and 5.5. The largest number of companies, 347 (62.0 percent), scored 0 or 1, indicating that they did not provide independent integrity assurance or provided a letter with essentially no substance. **Table 10** lists all of the companies that scored highest as well as their overall rank, region, and industry affiliation. The list includes 19 companies because 5 companies tied for first place and 14 companies tied for second place.

FIGURE 9. SCORES FOR FORMAL INTEGRITY ASSURANCE STATEMENTS

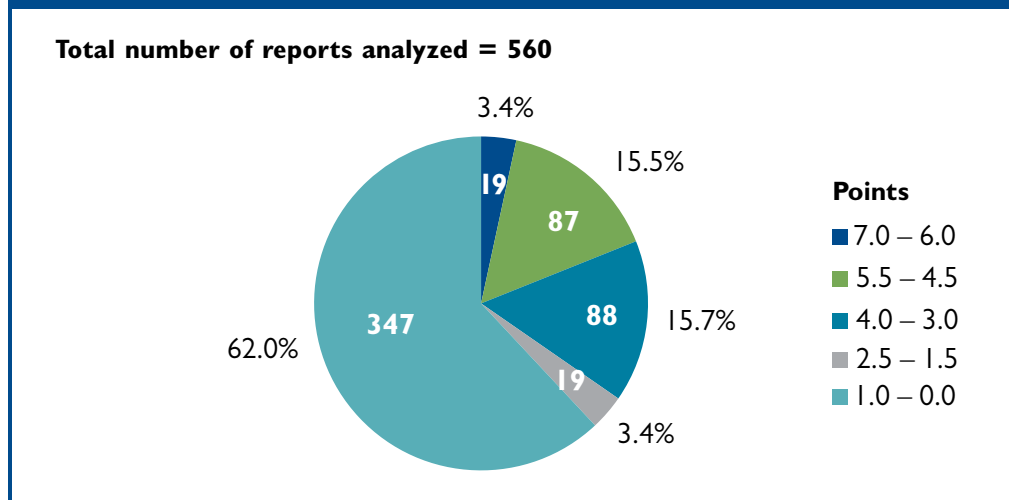


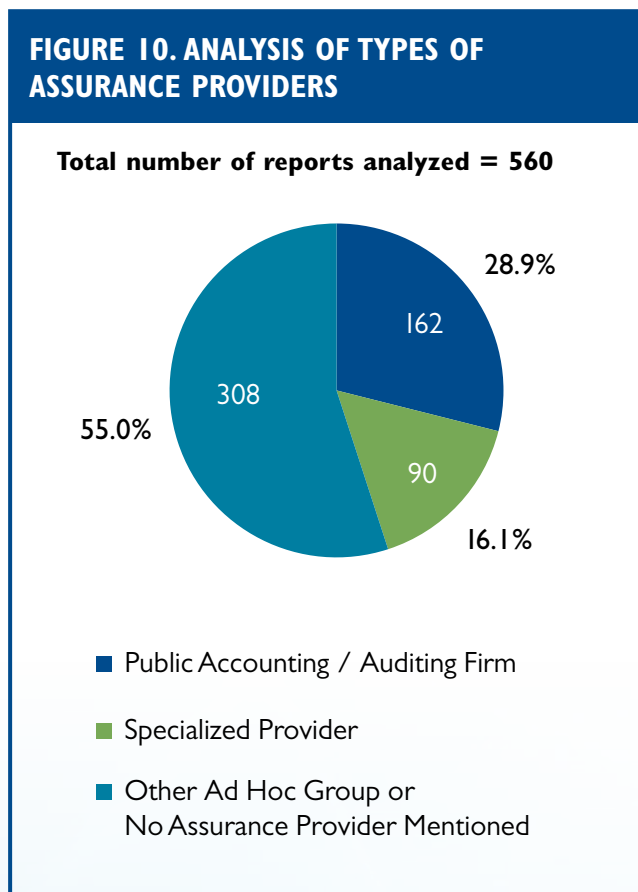
TABLE 10. TOP-SCORING COMPANIES ON FORMAL INTEGRITY ASSURANCE STATEMENTS AND THEIR OVERALL CSR-S MONITOR RANKING

Top 19 Companies – Assurance Letter	Assurance Letter Score (Out of max. 7.00 points)	Overall Rank	Industry Group	Region
Wesfarmers Limited	7.00	126	Retail	Oceania
Newmont Mining Corporation	7.00	49	Metal & Mining	North America
LG Electronics, Inc.	7.00	9	Electronics	East Asia
Hellenic Telecommunications Organization (OTE S.A.)	7.00	70	Telecommunication	Western Europe
Diageo plc	7.00	16	Food & Beverages	Western Europe
Vodafone Group Plc	6.00	135	Telecommunication	Western Europe
State Street Corporation	6.00	53	Financial Services	North America
Puma AG Rudolf Dassler Sport	6.00	79	Apparel & Footwear	Western Europe
Scottish Power plc	6.00	161	Utilities	Western Europe
Koninklijke KPN N.V.	6.00	168	Telecommunication	Western Europe
Barrick Gold Corporation	6.00	67	Metal & Mining	North America
BT Group plc	6.00	150	Telecommunication	Western Europe
BP plc	6.00	181	Oil & Gas	Western Europe
ArcelorMittal	6.00	22	Metal & Mining	Western Europe
AGL Energy Limited	6.00	135	Utilities	Oceania
CRH plc	6.00	63	Basic Materials	Western Europe
ASML Holding N.V.	6.00	145	Electronics	Western Europe
Bunge Limited	6.00	116	Food & Beverages	North America
Repsol YPF, S.A.	6.00	23	Oil & Gas	Western Europe

An unusual finding of our analysis was the almost total absence of any correlation between the high-scoring companies on contextual elements and those scoring well on the independent external integrity assurance letter. However, companies that performed well on either dimension of integrity assurance also performed well above average overall.

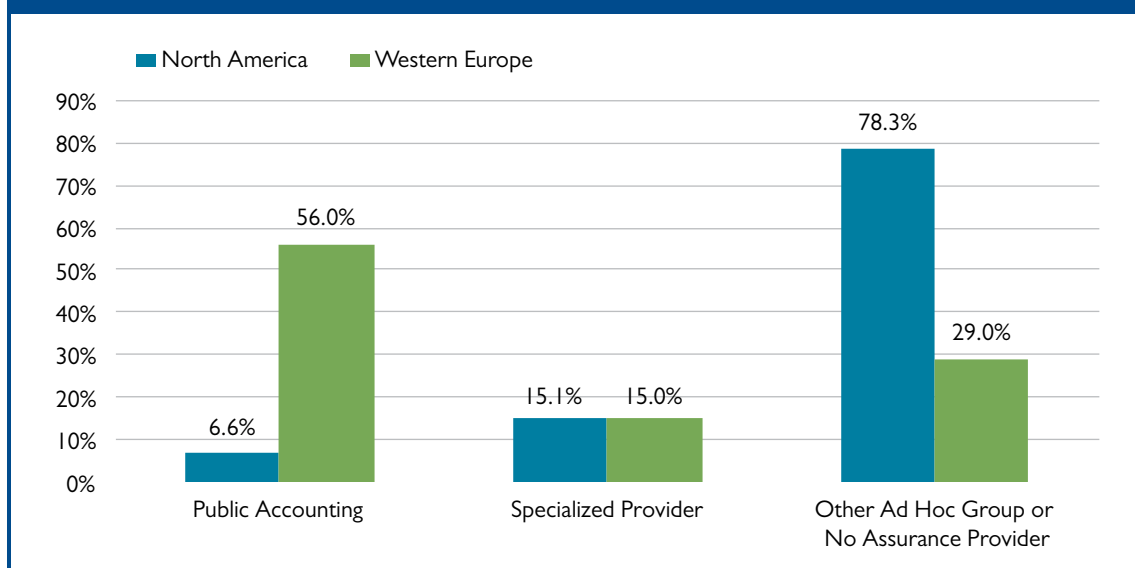
PROFILE OF INTEGRITY ASSURANCE PROVIDERS

Figure 10 shows that the Big Four public accounting/auditing firms were the largest group of assurance providers worldwide, covering 162 CSR reports (28.9 percent). This was followed by specialized assurance providers at 90 reports (16.1 percent). Conversely, the largest number of reports, 275 (49.0 percent), provided no integrity assurance of any kind, while another 33 (6.0 percent) provided integrity assurance from sources whose independence and expertise could not be verified, for a total of 308 reports (55.0 percent) that received no credit in this section. There are three notable observations with regard to Big Four accounting/auditing firms:



1. In a large majority of cases, these firms were also responsible for carrying out the company's financial audit.
2. There was an interesting dichotomy in the choice of assurance providers between corporations based in North America and those based in Western Europe. In the case of North America-based corporations, less than 7 percent used a public accounting/auditing firm for integrity assurance in their CSR reports, whereas in Western Europe 56 percent of all companies used public accounting/auditing firms. **Figure 11** shows a side-by-side comparison of the usage of different types of assurance providers by companies from North America and Western Europe.
3. More than 78 percent of CSR reports by North American corporations did not cite any assurance provider or used an ad hoc group of some kind, compared with 29 percent of Western European corporations.

**FIGURE 11. ANALYSIS OF TYPES OF ASSURANCE PROVIDERS
NORTH AMERICA vs. WESTERN EUROPE**



11 | LOOKING TO THE FUTURE

Our analysis of current trends in CSR reporting shows that there is a wide range in the quality of coverage of CSR reporting by major companies around the world. Companies that are issuing CSR reports will serve their own purposes better if they “up the ante” in terms of the information they provide. The goal should be to improve comprehensiveness, specificity of detail, quality, and accuracy of reporting.

Companies have been routinely publishing financial information—warts and all—under strict regulatory standards. Both the investment community and the public at large have come to accept this practice. A “new norm” is developing, whereby the public has come to expect similar high standards with regard to a firm’s social responsibility. Compulsory CSR reporting is still a long way off, however, so until that time, the CSR-S Monitor can help move this process forward by working to develop metrics that encourage companies to work with stakeholders to ensure transparency and provide third-party validation of reported information.

The CSR-S Monitor is a product that will evolve over time. We are currently collecting data for our next report, which we hope will include a larger number of companies. We are also actively seeking feedback from companies issuing CSR reports, the investment community, and other stakeholders in order to refine our methodology and identify issues related to specific industries and regions.



12 | ACKNOWLEDGEMENTS

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APPENDIX—DETAILED METHODOLOGY

This appendix supplies additional details concerning the sampling methodology.

Original Sample: Our first round of selection included the world's largest corporations which were present on multiple indices and which also represented a cross-section of industries. We defined the various regions with a modified version of the World Bank's designations; specifically, we split Oceania (Australia and New Zealand) from the East Asia and Pacific region and Western Europe from the Europe and Central Asia region. We made these modifications in order to ensure that our data would more accurately reflect the significant differences in the history and culture of CSR reporting within those regions. Similarly, our industry group definitions come from a modified version of standard industry classification systems used by the investment community. In some cases, we used more narrowly defined industry groups in order to emphasize the different nature of CSR reporting within that smaller segment, for example Apparel & Footwear versus other Consumer Goods.

Additional Companies from Emerging Economies: Because the original sample was weighted so heavily toward the industrialized regions, we added large companies from emerging economies and regions to the raw sample to increase the representation. These included family-owned and state-owned enterprises.

Raw Sample: The process yielded 1338 companies from 24 industries and 47 countries.

CSR Reporting: We then searched both the CorporateRegister and the companies' own websites for CSR reports that were issued in the 2011 calendar year. If we did not find a stand-alone report, we reviewed the company's annual report to see if it included a sizeable CSR reporting segment.

There are no required "due dates" for CSR reporting. Some companies published their 2010 CSR reports in 2010, other companies in 2011. Similarly, some companies issued their 2011 reports in 2011, others in 2012. We also found some companies that skipped years of reporting. Because of these inconsistencies, we chose only CSR reports published in the 2011 calendar year, no matter what their designated year.

We used the following criteria to include or reject companies for use in the CSR-S Monitor:

- *Include Company's Report:*
 - The company had a CSR report as a stand-alone report; or
 - The company had a sizeable CSR reporting segment as part of its annual report.
- *Exclude Company:*
 - No CSR reports found (website had no evidence of CSR info);
 - CSR reports were found, but were not issued in the 2011 calendar year;
 - The company's annual report did not contain sufficient CSR information to be analyzed;
 - The company posted some CSR-related information online, but not as a "report" (generally, this manifested as a few scattered pages about environment or governance, but lacking the substance to be a viable and comprehensive report);
 - The company's website or link to the CSR report was broken or otherwise inaccessible;
 - The company's website or report was not available in English; or
 - The company had merged, dissolved, or been acquired by another firm, and was no longer providing CSR reports independently.

Of the 1338 companies in the sample, 749 issued CSR reports that met the criteria above; we selected 560 of them for analysis by the CSR-S Monitor.



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