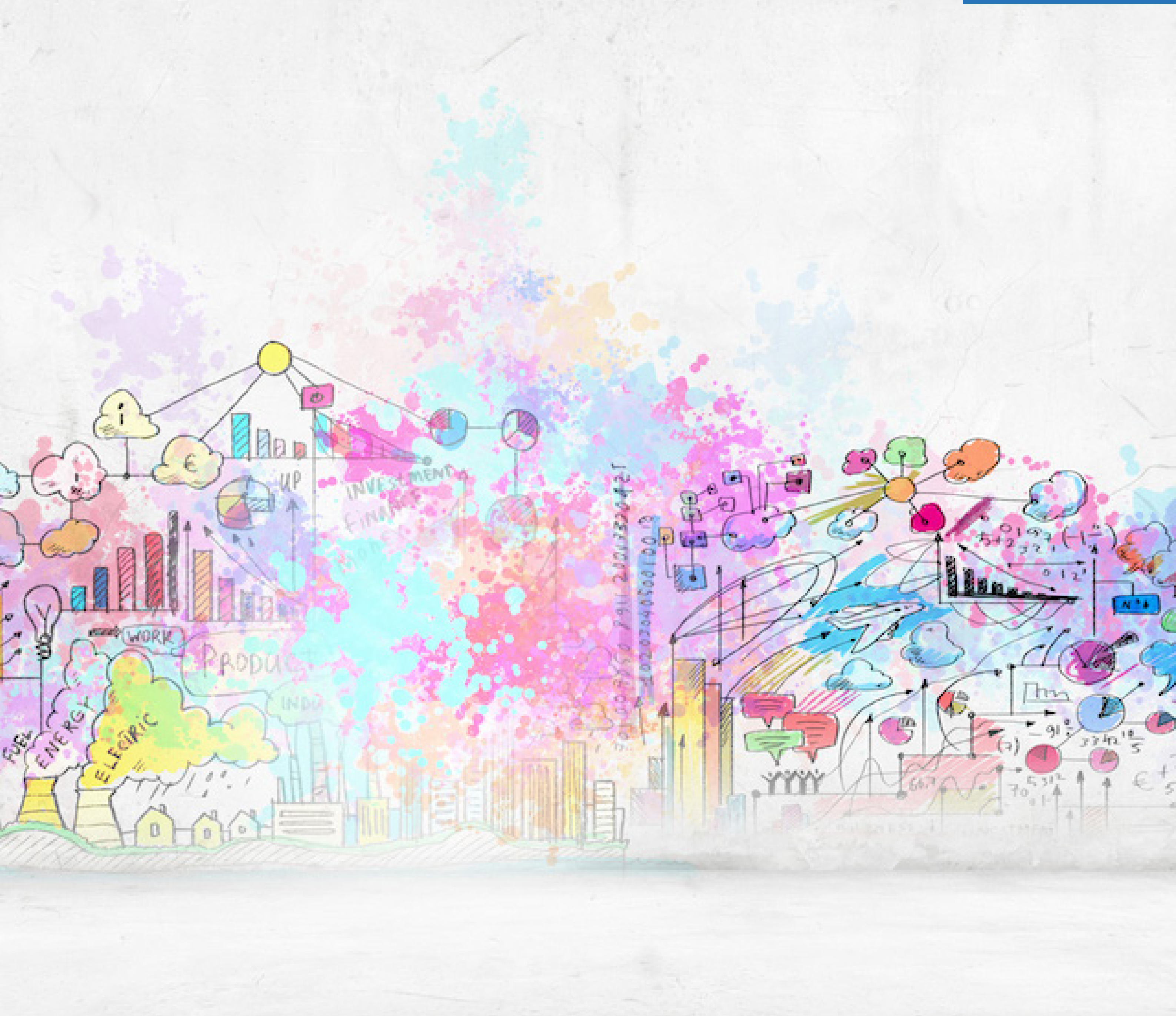
# Transforming Corporate Accountability:

## The Revolutions of Transparency, Ratings & Social Media

June 2015




A Report by Kaleidoscope Futures for WikiRate

Written by Scott Walker and Wayne Visser

# Report Partners

## Kaleidoscope Futures

This report has been researched and written by Kaleidoscope Futures, a think tank consultancy that helps organisations understand, anticipate, and strategise around future changes. It is focused on research, publishing and knowledge brokering that advances safe, smart, shared, sustainable and satisfying futures. **www.kaleidoscopefutures.com**

## WikiRate

This report was prepared for and funded by WikiRate, a community-driven initiative designed to “make companies clearer” by providing an open platform for corporate transparency. The information is created by and for anyone who interacts with companies: consumers, employees, investors, management, and regulators. The WikiRate Project is partially funded by a grant from the European Union. **www.wikiRate.org**

## WikiRate Consortium Partners

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# Contents

# Executive Summary

Information has never been more readily available. Technology presents citizens with far greater opportunities to engage with sustainability issues than ever before. Corporations are more actively courting the views of stakeholders online and are also increasingly expected to disclose their performance to interested and affected parties, as well as to contribute toward an ongoing dialogue.

Against this backdrop, Kaleidoscope Futures sought to ascertain the key trends related to corporate reporting, sustainability ratings and crowdsourced information. This report is structured in four parts.

Section One describes four trends related to corporate transparency and reporting, namely the:

1. Explosive sustainability reporting growth – but from an extremely low base;
2. Proliferation of reporting standards – with mandatory disclosure on the rise;
3. Improvement of data quantity and quality – driven by emerging information technologies; and
4. Shift from corporate to value chain data – with traceability becoming the new watchword.

Section Two describes three trends related to sustainability ratings, including the:

5. Increasing importance of sustainability ratings – as a driver of sustainability performance;
6. Consolidation of sustainability ratings agencies – due to competition and questionnaire fatigue; and
7. Demand for more transparency by rating agencies – to counter low levels of trust.

Section Three considers three trends related to Web 2.0 technologies, specifically the:

8. Movement of social media beyond a marketing channel – to an action research database;
9. Growing use of crowdsourcing as a stakeholder engagement tool – allowing proactive anticipation of issues; and
10. Transformation of the power of connection into the power of collaboration.

Section Four of the report outlines five concluding insights and showcases WikiRate. The five insights are that:

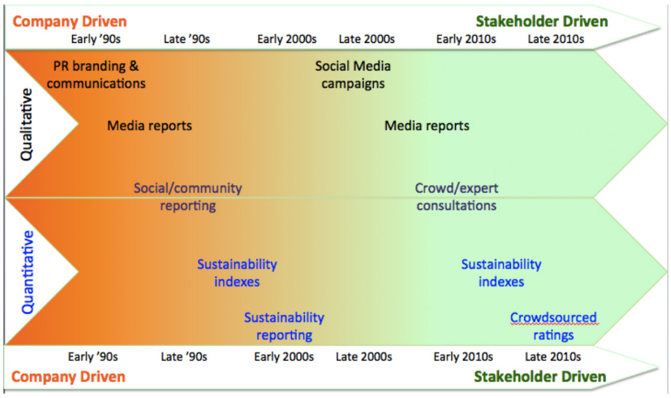
1. Hyper-connectivity makes responsiveness more possible – and less likely;
2. Value-action gaps make stakeholder feedback more collectable – yet less valuable;
3. The wisdom of the crowd can, without validation, also become the tragedy of the commons;
4. The openness of open source is questionable when values are a filter; and
5. Questions remain about accountability ratings when the guardians are not guarded.

# Introduction

In this report, we cast the spotlight of strategic foresight on how corporate accountability to stakeholders is rapidly evolving. This business transformation is being driven by three concurrent, synergistic revolutions, namely a revolution in reporting, a revolution in ratings and a revolution in social media.

As a result, as Figure 1 illustrates, corporate accountability has matured over the past two decades, from narrow, business-driven reporting and communications to stakeholder-driven experiments with social media and crowdsourcing, with each wave moving from qualitative to quantitative methods of content presentation and analysis.

**Fig 1: The Evolution of Corporate Accountability**




## The Revolution in Reporting

The growth of non-financial reporting has been steadily building for some time, at least since the EU Eco-Management and Auditing Scheme (EMAS) provided a catalyst in 1993. We have watched it gain some structure and credibility with the Global Reporting Initiative, starting in 1999, and then start to mainstream through Integrated Reporting Framework, launched 2013.

Now, a major shift is the way in which stakeholders are being used as a materiality filter for reporting on the most critical, impactful performance indicators. As the reporting becomes more focused, so does the depth of analysis and presentation. At the same time, quantification is moving gradually towards financial costing and disclosure of social and environmental externalities. Companies are realizing that context and impact are today's reporting watchwords.[1]

Another change is that the one-size fits all, half-narrative, half quantified sustainability report is looking increasingly out of date. Instead, companies are expected to draw on their growing database of environmental, social and governance (ESG) information and tailor it to different audiences. Performance data now needs to be packaged in different formats, with different stories, using different communications channels and media, in order to match the diversity of stakeholders' expectations.[2]

Linked to this trend is the localization and customizability of reports. Readers are only interested in what is directly relevant to them, so they will increasingly need to be able to interact with disclosed ESG content and shape it into a format that suits their needs and answers their specific questions.

## The Revolution in Ratings

Ratings are becoming more important, more numerous and more mainstream. There is also increasing demand for greater transparency in this arena, which is unsurprising: good performance on independent sustainability ratings is one way that businesses can counter the low levels of trust felt by the public at large.

The proliferation of sustainability ratings in recent years potentially offers investors and wider stakeholders a rich pool of sustainability information and performance assessment. But this has also come at a cost.

Users of ratings – particularly capital markets, but also consumers, employees, communities, and other stakeholders – are hard pressed to discern which ratings merit their attention and meet their decision-making needs. For investors that regularly engage companies in efforts to elevate their ESG performance, opacity is a serious obstacle to efficient and effective dialogue. For corporate directors, widely variable scores impair the execution of fiduciary duties to oversee the firm's strategy and performance. When ratings over-rely on past performance and underrepresent indicators that predict future company performance, investors and other users are left with a deficit on insight. Such problems continue to impede the veracity and effectiveness of rating indicators.

Whilst the sensible efforts of the Global Sustainability Rating Initiative (GSRI) are acknowledged in helping remedy the serious challenges facing the ratings world there is still a long way to go regarding better standardization, comparability and consistency. New methodologies are coming to fruition. But some commentators believe it will take years before the market begins to settle, as many agencies have invested heavily in their own respective rating approaches.

1. AccountAbility (2014) Trends in Corporate Reporting, July.
2. Hodgson, S. & Burke, P (2011) Multiple Messages: Sustainability reporting in transparent times. Report.

## The Revolution in Social Media

Ever since Yochai Benkler's *The Wealth of Networks* and Dan Tapscott and Anthony D. Williams *Wikinomics*, both published in 2006, business has been getting to grips with how the user-generated content world of Web 2.0 is reshaping what they do and how. For stakeholders, the social media revolution brings the democratisation of informaiton on companies that was previously the preserve of a much smaller set of infomediaries.[3]

The stakeholders' dream, according to some, is 'a comprehensive, networked, real time, platform that provided a single version of the truth to all concerned parties, inside and out'[4]. The 'crowdsourcing' models that have emerged in response are one of the ways stakeholders are taking collaborative communications into their own hands.[5] In effect, hyper-connectivity is allowing everyone to become a citizen activist, using 'the wisdom of the crowd' to 'regulate' corporate behaviour.[6]

What this means for business is that companies will increasingly face connected citizens that are checking compliance to regulations and codes, organising public campaigns than name and shame offenders and changing customer's buying behaviour.[7] This trend builds on steady improvements in consumer information on sustainable products and companies, which is coming out of the ratings revolution.[8]

However, companies can also turn the social media revolution to their advantage, by engaging in tailored crowdsourcing with stakeholders and sustainability experts. They need to ensure that these groups are properly represented, as many wiki-type platforms still exclude marginalized communities and those from less developed countries. However, if done thoughtfully, crowd-based platforms, linked to information on supply chains, products and corporate performance, could empower stakeholders around the world to help companies innovate to become more sustainable and responsible.[9]

## Methodology

This report used both primary and secondary sources to understand key issues, current trends and future considerations. During January and February 2014, Kaleidoscope Futures conducted over twenty interviews with corporate representatives, academics, technology leaders and sustainability experts with knowledge and experience in Web 2.0 and/or corporate accountability (see Acknowledgements for the full list of interviewees).

To supplement these interviews, we looked at the broader corporate sustainability landscape and also conducted extensive web-based searches. An 'initial findings' report was presented and discussed at a private stakeholder advisory panel on 21 March 2014. The report was conducted in the spirit on ongoing engagement on an agenda which is constantly changing. We invite the readers of the report to share their own additional insights. Readers are also invited to enquire further about WikiRate and help to shape this powerful emerging corporate accountability platform.

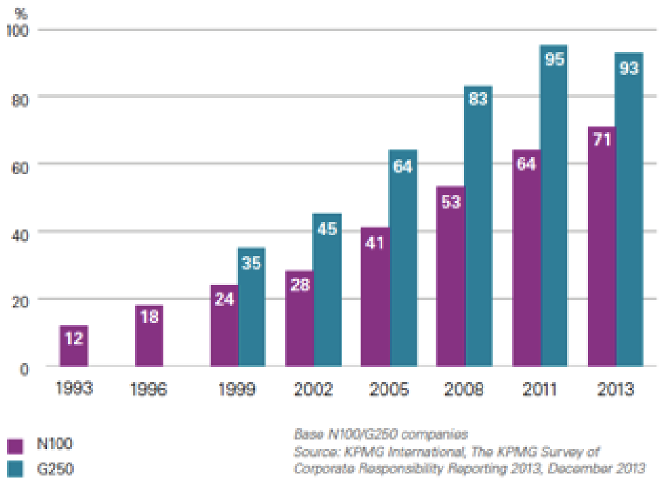
3. Graham. M. (2010) 'A new kind of globalisation? User generated content and transparent production chains'. *The Guardian*, 9 December.
4. Volans & GRI (2010) The Transparent Economy. Report
5. Baue, B. & Murningham, M. (2011) Integrated Reporting in a Disintegrating World. *The Guardian*, 24 October.
6. Surowiecki, J. (2005) The Wisdom of Crowds (2005). The advantages in disorganized decisions are classified as cognition, coordination, and cooperation.
7. Tapscott, D. & Williams, A. (2011) *Macrowikinomics: Rebooting the business and the world*, p.283.
8. Interview with Jules Peck, 19 February 2014.
9. Graham, M. (2010) A New Kind of Globalisation: User-Generated Content and Transparent Production Chains. *The Guardian*, 9 December.

# SECTION ONE: CORPORATE TRANSPARENCY AND REPORTING

## Trend 1: Explosive sustainability reporting growth – but from an extremely low base

Since reporting on sustainability began in the early 1990s, catalysed by the disclosure requirements of the EU Eco-Management and Auditing Scheme (EMAS) and subsequently promoted by the Global Reporting Initiative (GRI) and other institutions and standards, it has continued to gain momentum and is set to continue into the future.

**Growth in reporting since 1993**
Percentage of companies with CR reports




Now there are at least 54,585 corporate responsibility reports, across 10,980 companies, in over 161 countries[10] – an exponential increase on 2008 levels (over 3,000 reports).

**A global 2013 survey[11] of 3,300 businesses in 44 economies indicates that one-third issue corporate responsibility reports.**

*The Grant Thornton International Business Report*

Despite this impressive growth, however, the number of companies reporting on sustainability remains a tiny minority. Generally, it is only large, high profile, branded companies (above 500 employees) that have the incentives and resources to report any information.

According to a recent Bloomberg analysis of 25,000 companies, three quarters did not report any sustainability performance information.[12] Viewed against World Bank estimates of 120 million companies globally, the numbers of sustainability reporters are miniscule.

A 2014 survey indicates that the Americas has now overtaken Europe as the leading reporting region, largely due to an increase in reporting in Latin America.

**76% of (large) companies in the Americas now report, as compared to 73% in Europe and 71% in Asia Pacific.**

*KPMG Survey of Corporate Responsibility Reporting*

Whilst businesses are generally enthusiastic to promote positive performance they have achieved, transparency tends to be rather more limited when it comes to describing their failures or ongoing challenges. Some corporate reports are validated via third party assurance, but many are not, although statistics do point to an upward trend.

Overall, the increasing level of corporate transparency (from a very low base) is significant. Furthermore, the wave of transparency is expected to continue, over the next decade, especially as more emerging economies come into line with international norms and stakeholder expectations.[13]

## Trend 2: Proliferation of reporting standards – with mandatory disclosure on the rise

**"We see an increasing proliferation of sustainability ratings systems, but also a consolidation in terms of common international standards driven by the adoption from regulators and by Governments over the long term."[14]**

*Elena Avesani, Product and Sustainability Manager, Oracle*

Although more corporate sustainability reporting is taking place, this is being done against different issues, with different national, sector and international standards and indices being used. A 2013 review of 30 countries found over 140 national sustainability disclosure standards, of which two thirds were mandatory.[15] New changes – driven by political interests – continue to appear at both national and multi-lateral levels.

10. Corporate Register (accessed 19 Feb 2014)
11. Grant Thornton (2013) The Grant Thornton International Business Report, November.
12. Corporate Sustainability Reporting Coalition (2013) Briefing Paper, April.
13. Volans and GRI (2010) The Transparent Economy. Report.
14. Interview with Elena Avesani, Sustainability Manager, Oracle. 19 February 2014
15. KPMG (2013) Carrots and Sticks: Sustainability reporting policies worldwide – Today's best practice, tomorrow's trends. Report.

For example, India's new Companies Bill has made CSR mandatory for large companies, thereby imposing legal reporting requirements on around 17,000 businesses.[16] And in 2014, the EU agreed to amend existing accounting legislation to require 'public interest companies' with more than 500 employees to report on social, environmental and diversity matters.[17] We expect further developments in national regulatory frameworks to shape the transparency landscape and 'force' companies to report in the future.

Besides mandatory reporting, market forces are already providing de facto regulatory pressures, with stock markets contributing to the multitude of reporting standards.  Reporting on specific 'material' issues is increasingly necessary for companies making statements in their reports to investors and regulatory filings. Many of these disclosures are typically boilerplate warnings about risks from legal action or natural disasters, but represent an important trend nevertheless.

**Across 80 industry groups, there was on average 12 indicators for disclosure under the SEC materiality rules. That's 960 indicators across these 80 industries.[18]**

*The U.S Sustainability Accounting Standards Board*


In terms of voluntary standards, the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (now in their fourth edition, called G4) are already well established and widely adopted. GRI has also issued several sector supplements, as has the Sustainability Accounting Standards Board (SASB). This trend towards sector-specific reporting will likely continue.

In contrast to the GRI, the International Integrated Reporting Committee (IIRC) is pushing for the annual financial report and the sustainability report to become integrated. Its International Framework was published in December 2013. Hence, it is still too early to tell whether integrated reporting will become the norm; and if so, how long the transition process may take.

Positively, whilst reporting against specific standards has increased, on the downside, the vast proliferation and diversification of standards has also led to market confusion at the investor and consumer levels. A simple way to describe the repercussions could be 'more noise, less signal'.

**"There are over 600 ways to describe the issues affecting corporate sustainability; there are over 1,500 indicators that express and measure this."[19]**

*Mark Tulay, Program Manager at Global Initiative for Sustainability Ratings (GISR)*

What is missing across the standards arena, therefore, is greater clarity and more coordination. It is hoped that, over time, convergence may, and should, occur among the GRI, SASB, the IIRC, as well as other reporting frameworks like the Carbon Disclosure Project (CDP). The Global Initiative for Sustainability Ratings (GISR) has a challenging role to play in this respect. Arguably, the global reporting community wants to see fewer but more material disclosures on ESG (environmental, social and governance)[20]. But even if convergence does occur, the question of discerning performance excellence still remains fluid.[21]

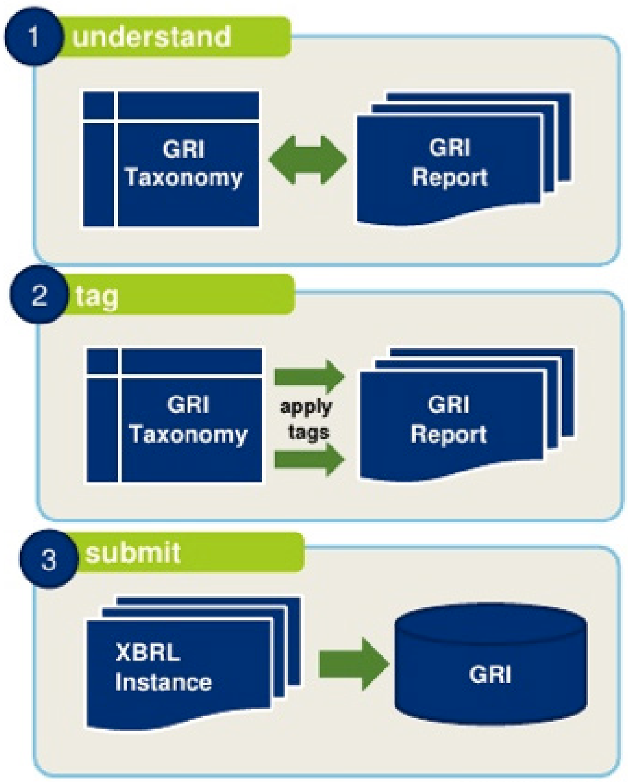
16. Visser, W (2013) 'A giant leap backwards on CSR: India's great missed opportunity'. *CSRwire*, 14 August.
17. EU Directive on non-financial reporting.
18. 'Allen, W (2013) Swamped by sustainability indicators that fail to drive transformation'. *The Guardian*. 7 August.
19. Interview with Mark Tulay, Program Manager, GISR. 3rd February 2014
20. Volans and GRI (2010) The Transparent Economy. Report
21. White, A. (2013) Swamped by sustainability indicators that fail to drive transformation. *The Guardian*, 8 August.

## Trend 3: Improvement of data quantity & quality – driven by emerging information technologies (IT)

The tools that companies use to report on sustainability remain rudimentary – primitive even – compared with those used for financial disclosure. Five years ago, very few companies were taking advantage of innovative technology to report related information. In 2009, a GRI survey found no companies using XBRL to tag data or Web 2.0 technologies to create engagement and dialogue with users of their primary report.[22]

**By 2013, 37% of surveyed companies used a centralised database system for environmental data management, while only 8% used packaged software for social and governance data.[23]**

*Six Growing Trends in Corporate Sustainability (EY)*




Source: Deloitte 2012

Progress is being made. GRI has worked with Deloitte to establish an XBRL taxonomy for ESG metrics. In the U.S, the SEC requires XBRL tagging of financial data according mature taxonomies. This will expand the definition of integrated reporting well beyond the scope of company-generated reports published once yearly. Now that Bloomberg has entered the fray, it is only a matter of time before users can do their own data integration in real time.

Notwithstanding the immaturity of sustainability reporting tools, significant amounts of quantitative non-financial data is streaming into the public domain. It is inevitable that advances in 'big data' analytics will start to be applied to these sustainability databases.

**"Data volumes and databases are getting much larger, assisted by the significant increase in data automation."[24]**

*Pratap Chaterjee , Managing Editor of CorpWatch*

Hence, data structuring, searchability and sign-posting will become at least as important as weaving a qualitative narrative.

## Trend 4: Shift from corporate to value chain data – with traceability becoming the new watchword

As the value chains of global corporations become larger, longer and more complex, there is growing demand by civil society organisations, governments and customers for disclosures on the sustainability impacts on (and of) suppliers, as well as the social and environmental impacts of products and services across their entire life cycle.

There are certainly trends toward companies increasingly exposing internal data sets to selected stakeholders. Information is being published through a combination of online data repositories and continuous releases of news to a self-selected group of users. The emphasis of the online data repository is on structure, searchability and sign-posting information rather than a narrative, with users dipping in and out to meet their needs.

David Siegel, author of *Pull*, a book on the power of the semantic web, calls this a change from a 'lead-push' to a 'pull-follow' model of transparency, whereby stakeholders can interrogate fractal (multi-level) corporate performance data. He predicts that over the next ten to twenty years it will change business's interactions with users. But the pace of change will depend on several variables, including the semantic web infrastructure that is put in place, amongst many other factors.

22. GRI (2009) Trends in Online Sustainability Reporting. Report.
23. EY (2013), Six Growing Trends in Corporate Sustainability. Report.
24. Interview with Pratap Chaterjee, Managing Editor, CorpWatch. 6 February 2014.


**"Sustainability reporting will increasingly build on a database of ESG information and data, packaged in different formats, with different stories, using different communications channels and media, in order to match the diversity of stakeholders' expectations."[25]**

*The Transparent Economy (Volans and GRI)*

Raw data alone presents its own challenges. Whilst quantities of information are soaring, analysing it, spotting patterns and extracting useful information will conversely become harder. What really matters in the future is how it is organised and made accessible. No doubt, big data can potentially have a massive impact when analysed and presented correctly. More generally, big data is a highly topical subject and there are significant calls for (private/public) data to be made far more readily available.

There is some irony here. Over the past decades, the production of commodities has globalized at a staggering pace, and yet our knowledge about the production of those same commodities has actually shrunk.

**"A key transparency trend relates to the traceability of products through their entire life cycle with strong arguments put forward that the sustainability movement needs to deconstruct and evolve the old model that combines standards, certification and on-pack marks."**

*Signed, Sealed … Delivered? (SustainAbility)*

Among the pioneers of product-level sustainability reporting are Patagonia, which launched their Footprint Chronicles in 2007. Walmart, although not a leader on transparency, gave a significant boost to supply chain reporting when, in 2009, they announced their intention to create a 'worldwide sustainable product index' to screen their 100,000 suppliers.


Sustainability Director at Interface, Ramon Arratia, believes 'full product transparency' using lifecycle assessment allows consumers to see where the greatest positive difference can be made.[26] Accordingly, he and others call for more benchmarking to provide real transparency, thereby allowing customers to make meaningful comparisons in their purchasing decisions.

A number of organisations already do important work in this space, such as Good Guide and We Green, making information on products and supply chains available to people when they purchase or invest.

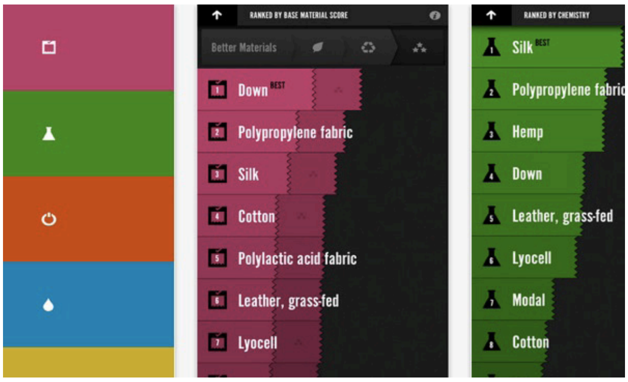
**In 2013, 73% of European companies in the Global Fortune 250 reported in detail on the impacts of their products and services, with U.S. (49%) and Asia Pacific (32%) companies lagging further behind.**

*KPMG Survey of Corporate Responsibility Reporting*

25. Volans and GRI (2010) The Transparent Economy. Report
26. Interview with Ramon Arratia, Sustainability Director, Interface. 11 February 2014

## Spotlight – Nike

Nike's 'Making' App is powered by the Nike Materials Sustainability Index (MSI), a database that was created by Nike over seven years using publicly available data on the environmental impacts of materials. The first release of *Making* includes the 22 materials that are most commonly used in apparel and home goods. It will continue to evolve, with the next iteration including materials that are relevant for footwear designers.




All materials in *Making* have a Material Score that aggregates environmental impacts in four key areas: chemistry, energy or greenhouse gas intensity, water or land intensity, and physical waste. The higher the score, the better the environmental footprint of the material. *Making* also allows users to rank materials by each of the four key impact areas. Scores for each impact area are calculated based on specific indicators.

# SECTION TWO: SUSTAINABILITY RATINGS

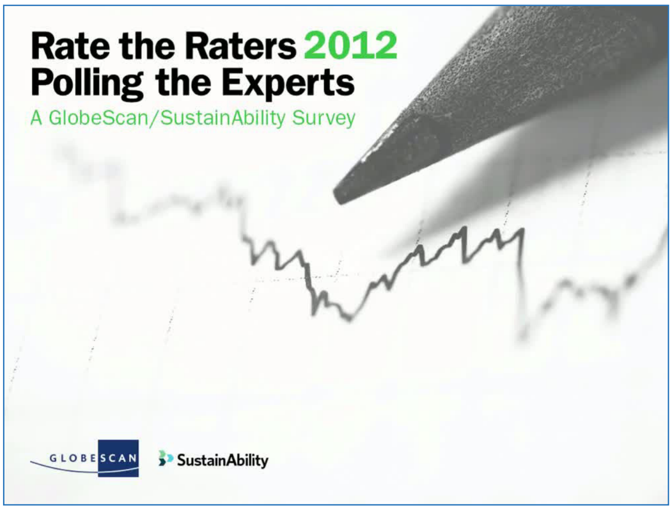
## Trend 5. Increasing importance of sustainability ratings – as a driver of sustainability performance

**"Ratings will become more important, more numerous and more mainstream over time"[27]**

*Eric Whan, Director of Globescan*

The development of ethical investment funds and indexes – from the early pioneering work of the Pax World Fund and Domini Social Index through to FTSE4Good and the Dow Jones Sustainability Indexes – has resulted in the growth in the number and sophistication of sustainability ratings around the world.

SustainAbility's 'Rate the Raters' analysis identified over 100 rating systems.[28] These have provided a critical counter-balance to sustainability reporting, since independent third parties typically administer ratings.




Darby Hobbs, CEO of Social 3, suggests that, "In the next five to eight years you'll see a lot more momentum in the sustainability ratings arena."[29] Furthermore, says Mark Tulay, Program Manager at GISR, "the sustainability map is coming into focus"[30]

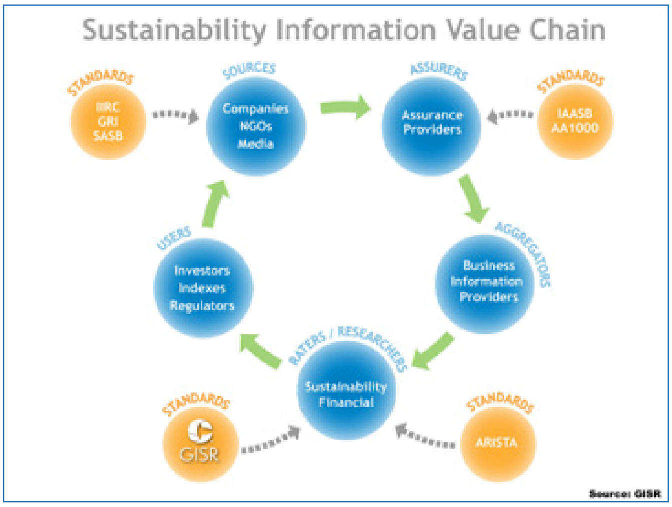
**51% of sustainability experts think ratings are more important than they were three years ago in driving corporate sustainability performance, while 63% believe they will be more important three years from now.**

*Rate the Raters: Phase 5 (SustainAbility)*

Specialist sustainability firms like RobecoSAM, which manages the Dow Jones Sustainability Index, covering 59 industries and hundreds of companies, have evolved to reflect the increasing complexity of the ratings game. "The maintenance of a rating methodology, being able to identify key issues on a yearly basis, and engaging with all these companies," notes Sustainability Operations Manager, Manjit Jus, "really is a significant undertaking."[31]

Michael Sadowski, Director at think tank advisory firm SustainAbility, believes that raters need to be valuable and focus on the right issues for companies. Ratings that try to deliver information to everyone will fail. "The tighter the audience," he concludes, "the more likely they will be to succeed."[32] Quality is also of the upmost importance, yet too many ratings have not invested in quality systems, processes and outputs to date.

As the market for sustainability information evolves, so too has confusion as to roles and interrelationships among various players across the ratings value chain. However, working together, the data disclosers, assurers, aggregators, analysts, raters and users can create positive feedback loops – a change in any one component sends ripple effects to other components through the creation of a virtuous circle of learning and innovation and synergy.[33]




27. Interview with Eric Whan, Director, Globescan. 20 February 2014.
28. SustainAbility (2010) Rate the Raters: Phase 2. Report.
29. Interview with Darby Hobbs, CEO, Social 3. 14 February 2014.
30. Interview with Mark Tulay, Program Manager, GISR. 3 February 2014
31. Interview with Manjit Jus, Sustainability Manager, RobecoSAM, 7 February 2014
32. Interview with Michael Sadowski, Director, Sustainability. 28 January 2014
33. White, A. (2012) Redefining Value: the future of corporate sustainability ratings. IFC. Private Sector Opinion 29.

The proliferation of ratings potentially offers investors and wider stakeholders a rich pool of sustainability information and performance assessment. But this has also come at a cost. Users of ratings – particularly capital markets, but also consumers, employees, communities, and other stakeholders – are hard pressed to discern which ratings merit their attention and meet their decision-making needs.

Therefore, standardization, comparability and consistency are urgently required. So are, there no generally accepted methodology for this alignment has emerged. The efforts of the Global Sustainability Rating Initiative (GSRI) is important is trying to respond this challenge.[34]

## Trend 6: Consolidation of sustainability ratings agencies – due to competition & questionnaire fatigue

**"The growth and diversification of ratings over the next years will ultimately be followed by the market settling on a few 'winners' of different rating types, based on quality, due to demand."**

*Antoine Mach, Co-Founder of Covalence*

As demand increases for business to provide a variety of ESG related information to different rating agencies – from ethical fund managers and sustainability indexes to sustainability awards institutions and activist organisations – large, listed companies are suffering from questionnaire fatigue. This is made more acute by the lack of indicator standardisation and the proliferation of would-be data users.

Some large companies respond to more than 300 customer surveys each year and the number of sustainability related inquiries from investors and shareholders have increased over the past year.[35]


The likely consequence is that companies will increasingly push back or simply ignore requests from all but a few ratings agencies that they judge to be the most important or influential. As a result, we expect to see a consolidation of traditional sustainability rating agencies, much like financial rating came to be dominated by the likes of Standard and Poors.

However, according to Darby Hobbs, CEO of Social Media 3, "it could be eight years or more before the market begins to settle, as many agencies have invested heavily in their respective methodologies".[36]

Socially Responsible Investment (SRI) adviser, Steve Pyne, notes that "we need to get to a point where there are two or three renowned places with sources that can be trusted. This needs to be accessible too. It's too easy at the moment for large companies not to worry because the mainstream public don't have enough information, or rating systems which individual consumers and investors can both turn to for clear information".[37]

**"When we get perspective, we'll see it's a renaissance period in terms of innovation and interest, in transition from viewing sustainability factors as 'value' versus 'values based'."[38]**

*Mark Tulay, Program Manager at Global Initiative for Sustainability Ratings (GISR)*

## Trend 7. Demand for more transparency by rating agencies – to counter low levels of trust

**Only one in four of the general public trust business leaders to correct issues and even fewer – one in five – to tell the truth and make ethical and moral decisions.**

*2014 Edelman Trust Barometer*

Two thirds of the 1,000 CEOs surveyed felt business is not doing enough to address global sustainability challenges, which is one likely reason why there is a trust deficit.[39] Good performance on independent sustainability ratings is one way to counter these low levels of trust.

34. www.ratesustainability.org
35. Ernst & Young & GreenBiz (2013) Six Growing Trends in Corporate Sustainability. Report
36. Interview with Darby Hobbs, CEO, Social 3, 14 February 2014
37. Interview with Steve Pyne, Partner, Holden & Partners. 14 February 2014
38. Interview with Mark Tulay, Program Manager, GISR. 3 February 2014
39. Accenture & UN Global Compact (2013) CEO Study.

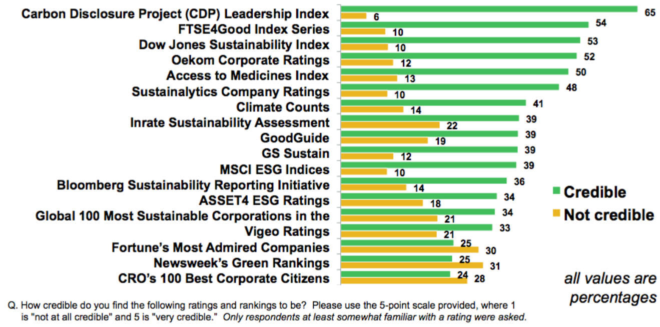

However, it also leads stakeholders to question how the raters produce their ratings. Unfortunately, as commercial entities, many of these rating agencies regard their assessment methodologies as competitively sensitive intellectual property. Most raters develop and maintain proprietary methodologies in order to protect commercial interests.

Eric Whan, Director of Sustainability at GlobeScan, calls this proprietary approach to rating methods a "black box technique", which "is not going to be very sustainable in the long term, due to the lower credibility and the fact they don't provide an avenue to trust."[40]

Allen White, Vice President and Senior Fellow at Tellus Institute, has stressed that this gap is problematic in different ways for different users: for investors that regularly engage companies in efforts to elevate their ESG performance, opacity is a serious obstacle to efficient and effective dialogue. For corporate directors, widely variable scores impair the execution of fiduciary duties to oversee the firm's strategy and performance. For governments that might use ratings as a basis for procurement decisions, incomplete information is an obstacle to designing policies geared to screening companies on performance in areas such as human rights and climate.[41]

As a result, demand for rating transparency is becoming stronger. When ratings are transparent across a variety of facets – their methodologies, their results, how they manage potential conflicts of interest – they build trust and stimulate demand for their products.[42] Generally, trust in ratings is up from 2010–2013, although NGOs dipped slightly, while trust in investors and analyst has increased.[43]

## How credible do experts find particular ratings and rankings to be?




The latest survey of 'which rater is best' shows that specific indicators, such as the Carbon Disclosure Project (CDP), rank top, closely followed by the Dow Jones Sustainability Index. NGOs fair especially well as raters, but there are demands for more transparency with how their rating results are achieved.

Beyond rater transparency, the challenges of inconsistency and integrity are both also critical. It is suggested that many ratings methodologies rely heavily on backward-looking indicators (measuring last year's performance), as opposed to what will happen in the future over the long term. When ratings over-rely on past performance and underrepresent indicators that predict future company performance, investors and other users are left with a deficit on insight as critical questions remain unanswered.

### Traits Considered Most Important When Choosing Raters

- Profile
- Credibility
- Transparency of methodology and results
- Management buy-in or recognition of the rating (or the brand behind the rating)
- Quality of approach and methodology
- Relevance of approach and criteria to a company's sector and context

40. Interview with Eric Whan, Director, Sustainability. Globescan. 20 February 2014
41. White, A. (2012) Redefining Value: the future of corporate sustainability ratings. IFC. Private Sector Opinion 29.
42. SustainAbility (2011) Rate the Raters: Part 4. Report.
43. SustainAbility (2012) Rate the Raters: Part 5. Report.

## Trend 8. Moving social media beyond a marketing channel – to an action research database

**Crowdsourcing needs to be saved from becoming a stale marketing tactic, and instead embedded into the working DNA of the company, so that it can change and influence the whole organisation.[44]**

*Matthew Yeomans, Founder and Editor of Sustainly*

Many companies today use social media – Facebook, LinkedIn, Twitter, Google+ and many others – as a 'broadcast' outlet for building their brand and conveying messages to interested parties, typically those that "Like" or "Follow" them.

However, Bill Baue, Co-Founder of Sustainability Context Group, believes this Accountability 1.0 mode of one-way proclamations, campaigns and PR communications on Web 2.0 platforms is already out-dated. Instead, Accountability 2.0 requires two-way communication, cooperation, and mutual engagement with stakeholders.[45]


One first step is to analyse content on social media platforms – such as the so-called Twittersphere or Blogosphere – to find out the unsolicited opinions of their stakeholders. Fractal Analytics, for example, uses patented technology to determine what stakeholders are saying on social media about a company's social, environmental and product performance.

However, this analytical approach is just the start. Organisations are also tapping into 'crowdsourcing' and 'crowdstorming' processes. Even here though, much of the crowdsourcing applied to date has been as a marketing tool: adopting Web 2.0 technologies to extend existing modes of brand communication and customer engagement. 53% of corporations are now using social media in this way, to augment their reputation preservation and crisis communication function.[46]

The real power of crowdsourcing should come from the volume of information, ideas and opinions it opens up. In addition, just as the value of user-generated content becomes more effective when curated and packaged by professional editors, crowdsourced ideas and actions increase in effectiveness when shaped around an identifiable business goal.[47]

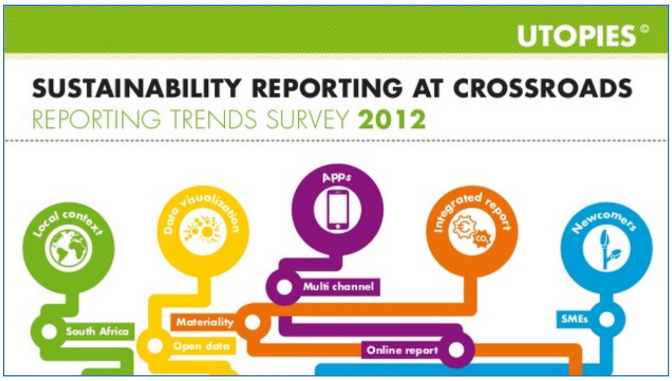
**When corporate experts were asked in 2013 what will be important in 5 years time: 73% said monitoring social media channels; 60% noted mapping online influencers; and 46% thought creating online panels to share information.**

*The Future of Stakeholder Engagement (Brunswick)*

Engagement is already happening and it will become far more interactive. Some organisations will continue to have more robust conversations with their stakeholders online. Looking to the future, stakeholder interaction will be driven by the pressures of pluralism, the importance of continuous and frequent communications and the need for information on demand.[48]

In a sense, the playing field has been levelled, giving stakeholders the opportunity to initiate and drive the conversation, which in turn will drive greater openness. Companies that previously demanded full control over communications now have to play by entirely different (and contradictory) rules of the game.

44. Yeomans, M. (2013) Why crowdsourcing should become part of a company's DNA. *Guardian Sustainable Business* blog, February.
45. Baue, B. & Murninghan, M. (2010) 'The Accountability Web: Weaving Corporate Accountability and Interactive Technology.' CSR Initiative Working Paper No. 58. Harvard University
46. Useful Social Media (2013) State of Social Corporate Media. Report
47. Yeomans, M. (2013) Why crowdsourcing should become part of a company's DNA. *Guardian Sustainable Business* blog, February.
48. Acona (2011) Multiple Messages: Sustainability Reporting in Transparent Times. Report




**9 out of 10 experts expect public criticism through online social media to increase in importance over the next 3 – 5 years.[49]**

*Sustainability Reporting at a Cross Roads (Utopies)*

According to think-tank consultancy, SustainAbility: "Companies need to get comfortable losing some control and allow conversations to evolve unedited, and some companies will benefit from unfiltered commentary and feedback from advocates and critics. Honesty, transparency and candour are even more critical online."[50]

The new social technologies, media and networks promise – or threaten, depending on your viewpoint – to transform the reporting landscape: they will accelerate and deepen conversations between business and its current stakeholders, and, potentially, bring totally new people and interests into the conversation – with dramatically powerful information and intelligence at their disposal. Broadcast is out; dialogue in.

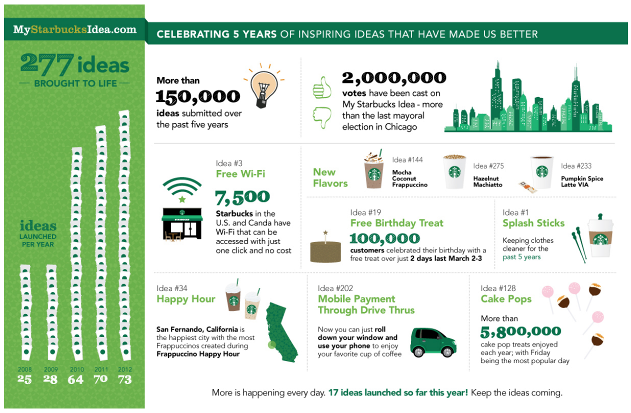
**"In the digital world, everyone has a smartphone and they want to know where things come from and share that information"[51]**

*Kevin Petrie, Chief Procurement Officer for Nestlé in North America*

This represents a promising approach as it has the potential to elevate sustainability reporting from a rather managerial 'closed-shop' and one-way company controlled exercise to a more stakeholder-driven process providing a variety of mechanisms for dialogue, feedback, interactivity and customization.

## Spotlight – Starbucks

The My Starbucks Idea website is where Starbucks does its business crowdsourcing. It has actively engaging customers for years by encouraging them to submit ideas for better products, improving the customer experience, and defining new community involvement, among other categories. The company regularly polls its customers for their favourite products and has a leader board to track which customers are the most active in submitting ideas, comments, and poll participation. The site is a crowdsourcing tool, a market research method that brings customer priorities to light, an on-line community, and an effective Internet marketing tool.



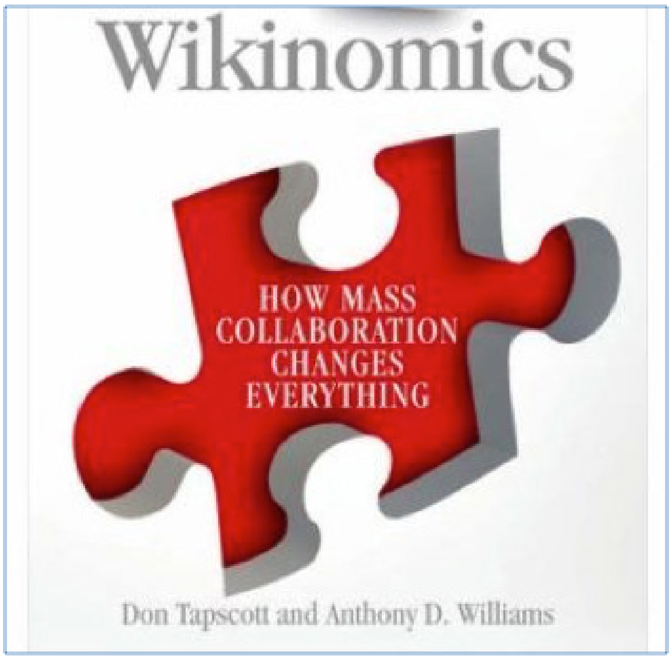

"My Starbucks Idea, though hardly a perfect model of crowdsourced action, points to what is possible in terms of better business when companies open up about the challenges they face and seek advice from parts of the community they would never have thought to consult in the past. It demonstrated some success but also had to counter criticism that their crowdsourced idea platforms are hampered by inaction."[52]

49. Utopies (2012) Sustainability Reporting at a Cross Roads. Report.
50. SustainAbility (2011) Web 2.0 Survey. Report
51. Strom. S. (2014) Nestle moves toward humane treatment of animals at its supplier. *New York Times*, 20 August
52. Yeomans, M. (2013) Why Crowdsourcing should become part of a company's DNA. *Guardian Sustainable Business* blog, February.

## Trend 9: Growing use of crowdsourcing as a stakeholder engagement tool – allowing proactive anticipation of issues

**44% of corporate sustainability mangers say they have used crowdsourcing to help in decision-making on how to tackle issues. 83% see the potential in crowdsourcing technology and 95% 'found it valuable to their company'.**

*Crowdsourcing and Social Media (Weber Shandwick/ KRC Research)*




Crowdsourcing – which emerged from thinking on the 'wisdom of the crowd' and 'wikinomics' – is made possible due to Web 2.0 technologies, which allow participation and aggregation of the views of large numbers of people. While there are celebrated examples like Open Planet Ideas and FutureScapes, where crowdsourcing is used to create innovation – which is sometimes called 'crowdstorming' – it has attracted the most interest as a stakeholder engagement tool.[53]

Crowdsourcing creates networks that enable people to act together in new ways and in situations where collective action was not possible before. It is likely that the 'killer apps' of tomorrow's mobile infocom industry will not be hardware devices or software programmes but online infrastructures that facilitate relationships among enterprises, communities and markets.

**Four in five communicators (82%) believe their organisation will be doing more stakeholder engagement in five years time.**

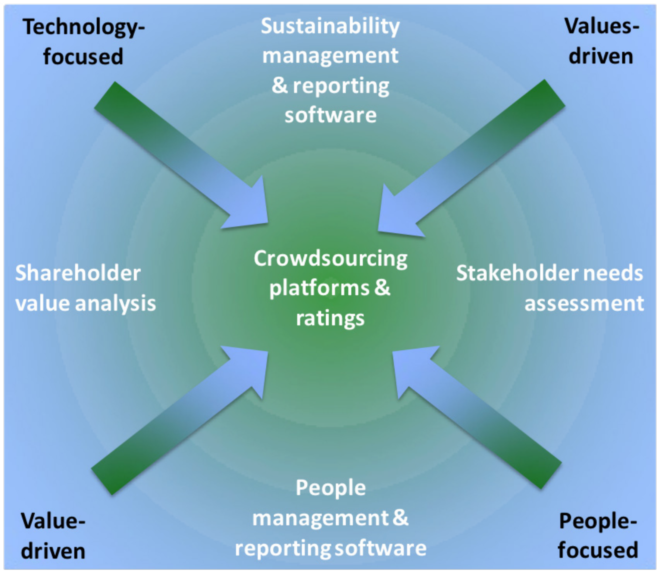
*The Future of Stakeholder Engagement (Brunswick)*

According to sustainability managers, the value of crowdsourcing is that it surfaces new perspectives, builds engagement with key audiences, invites clients and customers from non-traditional sources to contribute ideas and brings new energy to the process of generating ideas and content.[54]

These benefits have become especially evident when companies can select an expert 'crowd' to engage with, as new platforms like Convetit allow. Organisations are tapping into the 'crowdstorming' process selectively, as a complement to existing business practices.

**"I can press the button and I'm going to be launched into a think tank of some sorts with these ten people who've already been pre-vetted. And we are going to engage for a short period of time to solve my problem."**

*Thomas O'Malley, Convetit*




53. Abrahamson, S., Ryder, P. & Unterberg, B. (2013) *Crowdstorm: The Future of Innovation, Ideas, and Problem Solving.* Published by John Wiley & Sons
54. Weber Shandwick / KRC Research (2010) Crowdsourcing and Social Media. A Survey of Business Executives. Report

### Spotlight – Unilever

In April 2012, Unilever launched its first ever Sustainable Living Lab – a 24-hour continuous discussion to bring together different stakeholders from around the world to address some of the most difficult challenges faced in the journey towards sustainable growth: sustainable sourcing; sustainable production and distribution; consumer behaviour change; and waste and recycling. More than 2,200 participants from 77 countries took part in the Sustainability Lab forums to discuss ideas, develop solutions and share good practice in four key areas of the value chain.Almost 4,000 comments were posted during the Lab. One year later the exercise was repeated.


In 2013, a separate campaign, Project Sunlight, was launched, which was an ambitious effort to raise consumer awareness about sustainability through the company's leading brands. It's too early to say just how successful Project Sunlight will be in educating and shaping consumer behaviour but the pure scale of Unilever's focus on sustainability marketing – and the potential of social media to ignite a movement – will make more than a few other chief marketing officers sit up and take note.[55]

## Trend 10: Transforming the power of connection into the power of collaboration

**"For crowdsourcing to be an effective part of social business, the 'crowd' needs to feel that its views (so assiduously courted by the corporation) turn into action."[56]**

*Matthew Yeomans, Founder and Editor of Sustainbly*

Many companies have used Web 2.0 as a means of communicating, understanding their stakeholder needs and responding to their concerns. However, the real power of crowdsourcing type technologies is not in consultation but in collaboration – when groups of people who share a common vision can link together to make change happen.

Online collaboration can take many forms. For example, BlaBlaCar connects drivers with empty seats to people looking for a ride and is the biggest European car sharing community. Karmayog in India allows people to blow the whistle on bribery and collectively put pressure on government officials to stamp out corruption. Things.info pools information about the production, usage and recycling of products to improve our social and environmental footprint.

**Nearly half of 475 global, publicly listed companies have social media channels or campaigns dedicated to discussing their sustainability or CSR efforts. Just four years ago only 60 major companies were using social media for sustainability.[57]**

*The 2013 Sustainability Social Media Index*

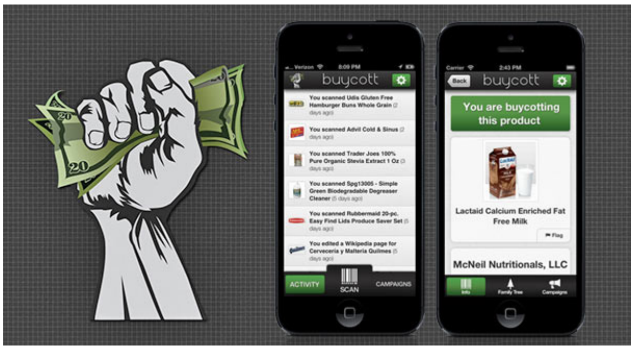
Twitter is the most popular (and easiest to handle) social media channel for most companies. Increasingly companies are also experimenting with Pinterest, Tumblr and Instagram for storytelling, as well as looking to Linkedin to provide thought leadership. Apps and interactive games also provide useful content outlets and create a more interesting experience around sustainability and CSR topics.[58]

55. Sustainly (2013) Social Media Sustainability Index 2013. Report; Unilever website.
56. Sustainly (2013) Social Media Sustainability Index 2013. Report; Unilever website.
57. Sustainly (2013) Social Media Sustainability Index 2013. Report.
58. Sustainly (2013) Social Media Sustainability Index 2013. Report.

Although internal, crowdlike approaches to creativity and idea generation – such as “jams”, “idea marketplaces” and “personal entrepreneurial projects” – may increase the scope for exploration and flexibility inside companies, they are qualitatively different from and fall short of the full capability of external crowds.[59] Buycott is an example where crowdsourcing is used as a collaborative, action-oriented tool.

## Spotlight – Buycott

Buycott enables consumers to scan bar codes on packaging to uncover details of the product’s corporate family tree and allows consumers to join user-created campaigns to boycott businesses that support questionable practices. It is possible to consumers to join user-created campaigns, which include a list of companies to avoid or support in order to achieve a goal. When a person scans a product barcode, the app traces the ownership of that product to its top corporate parent and crosschecks it against the campaign commitments a person has made.




Founder, Ivan Pardo, states: “for me, it was critical to allow users to create campaigns because I don’t think it’s Buycott’s role to tell people what to buy. We simply want to provide a platform that empowers consumers to make well-informed purchasing decisions.”

59. Boudreau, K.J. & Lakhani, K.R. (2013) ‘Using the crowd as a business partner’. *Harvard Business Review*, April.

# SECTION FOUR: TAKEAWAY INSIGHTS AND BEST PRACTICE CASES

## Insight 1: Hyper-connectivity makes responsiveness more possible – and less likely

### *The Opportunity*

In the coming decade, 2.5 to 3 billion more users could be connected to the Internet. Most of this growth will occur in developing economies. The rapid growth of social media (and user generated content) will undoubtedly continue apace to the extent that by 2025, more than 1.8 billion people will move up into the global consumer class – those who earn enough to buy goods and services after meeting basic needs. The leading agent for connecting these billions of consumers will be mobile-computing devices, particularly smartphones.[60]

### *The Challenge*

As our technologies make hyper-connectivity the norm rather than the exception, we all have the potential to be citizen activists. We can 'vote' using social media to make our opinions heard instantly through Twitter or Facebook or any of the other online platforms. But the ubiquity of online networks also means that we are overwhelmed by content and flooded with requests to participate in everything from games and surveys to webinars and think tanks. As a result, we screen out or ignore many invitations to engage.

Technology alone does not create constructive engagement and collaboration. Awareness and participation invariably count enormously. Each day million of blog postings are written and hundreds of thousands of videos are uploaded onto YouTube, to be shared, 'Liked' and commented on. Twitter has over half a billion accounts and over 200 million tweets a day. Communications experts Jon Miller and Lucy Parker describe this as the 'age of conversation'.[61]

Wikis grow because enough people care about them; they die if the converse is true.[62] The chief challenge facing intermediaries that have created online stakeholder engagement platforms is getting people to show up, beyond the initial novelty phase. Beyond this, it is even harder to promote continuous participation.[63]

**"In Internet culture, the 1% rule is a rule of thumb pertaining to participation in an internet community, stating that only 1% of the users of a website actively create new content, while the other 99% of the participants just lurk."**

*Charles Arthur, The Guardian*

A variant is the 90–9–1 principle (sometimes also presented as the 89:10:1 ratio), which states that in a collaborative website such as a Wiki, 90% of the participants of a community only view content, 9% of the participants edit content, and 1% of the participants actively create new content.[64]


**Two-thirds of consumers globally (67%) are interested in sharing their ideas, opinions and experiences with companies to help them develop better products or create new solutions.[65]**

*Re:Thinking Consumption (BBMG, Globescan, and SustainAbility)*

However, if contributions are undervalued or there are limited incentives, then it is not hard to see how this would have a negative impact, resulting in fewer contributions and ultimately disengagement from the platform.[66]

60. McKinsey Research (2013) Ten IT-enabled business trends for the decade ahead. May
61. Miller, J. & Parker, L. (2013) Chapter 14: The 11 Conversations, In *Everybody's Business*. Biteback Publishing.
62. Shiky, C. (2008) Here Comes Everyone. p.136
63. Baue, B. & Murninghan, M. (2010) 'The Accountability Web: Weaving Corporate Accountability and Interactive Technology.' CSR Initiative Working Paper No. 58. Harvard University.
64. Arthur, C. (2006) What's the 1% rule. The Guardian, 20 July.
65. BBMG, Globescan, and SustainAbility (2012) Re:Thinking consumption: Consumers and the future of sustainability. Report. November
66. Abrahamson, S., Ryder, P. & Unterberg, B. (2013) *Crowdstorm: The Future of Innovation, Ideas, and Problem Solving*, p.25, 148. John Wiley & Sons.

## Insight 2: Value-action gaps make stakeholder feedback more collectable – yet less valuable

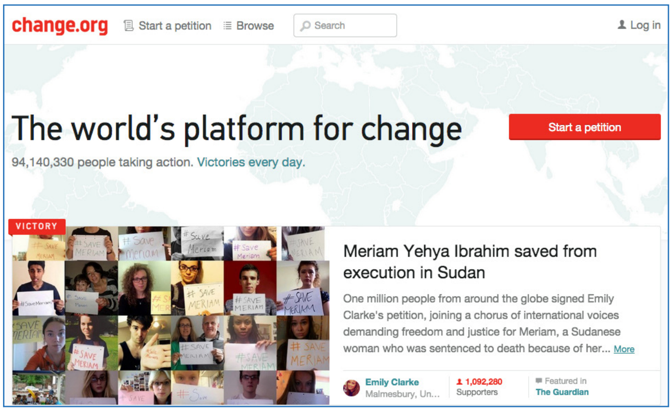
### *Opportunity*

Social media allow companies to communicate more widely and subtly with potential customers about the values associated with their products and services, especially its ethical, socially responsible or environmentally sustainable attributes.

### *Challenge*

Web 2.0 type technologies have exacerbated the value-action gap, whereby people's expressed attitudes or values – which are easier and less costly than ever to share – are not matched by their actions, such as, altered buying behaviour. We sometimes also call this 'slacktivism'.

It has been suggested by Internet expert, Evgeny Morozov, that Increased online presence has done little more than create a generation of 'slacktivists' who will engage in token displays of support for a cause but are not likely to subsequently engage in more meaningful contributions to the cause.[67] Whilst this may be true in some instances, there is no doubt that significant movements have been driven through the Internet to affect important change. One example is **www.change.org**, which is a web-based technology tool with a transparent action agenda.




In fact, crowdsourcing is a fertile ground for grass-root activists to campaign on causes. Transparency expert, Bill Baue, however, is skeptical about self-organised action. 'If you don't have any sense of guidance or a mechanism for discerning the actions from the aggregation of data then it's merely a dumping ground, that doesn't have assessment or analysis, or a logical next step'.[68]

**"Avoid the 'if you build it they will come' mentality; rather it's better to leave a trail of breadcrumbs to the tools on how to use it to create change dynamics. That's where the innovation of crowds is great."[69]**

*Bill Baue, Co-Founder of Context Sustainability Group*

Companies are obviously directly engaged in social media activities on a continuous basis. But businesses need skilled facilitators and moderators who are well versed in constructing online collaborative communities to effectively manage their external relations.[70] Typically, this involves a managing a complex set of tasks, including facilitating discourse, connecting and applying new ideas, focusing the discussion, correcting misconceptions, distinguishing between facts and opinions, and managing conflicts.

Important questions to pose are: What is the added value for a corporation to participate? How deep can these conversations go? And what are the risks associated with public positioning on specific issues through these channels?

67. Morozov, E. (2009) The Brave New World of Slacktivism. Foreign Policy, May 19
68. Interview with Bill Baue, Founder, Context Sustainability Group. 21 January 2014
69. Interview with Bill Baue, Founder, Context Sustainability Group. 21 January 2014
70. Baue, B. & Murninghan, M. (2010) 'The Accountability Web: Weaving Corporate Accountability and Interactive Technology.' CSR Initiative Working Paper No. 58. Harvard University.

## Insight 3: The wisdom of the crowd can, without validation, also become the tragedy of the commons

### *Opportunity*

Crowdsourcing allows everyone to express his or her opinion, promoting diversity of feedback. It can foster the emergence of collective knowledge and the revelation of formerly invisible insights. Good or popular ideas can rise to the top.

### *Challenge*

In terms of stakeholder theory, who says something can be even more important than what they say. For opinions to be credible, the source of those opinions needs to be trusted. Hence, validation, vetting and referencing is critical. If no one accepts constraints or rules, the 'tragedy of the commons' may result.

The veracity of any claim made against a business is crucial. In terms of allegations put forward by NGOs, corporate rating agencies sometimes have to dismiss information advanced to them due to the credibility of the information and source provided.[71] Businesses in turn have concerns that claims may be biased, incomplete, or politically motivated. Furthermore, there are invariably risks related to superficial assessments based on only limited information, such as what has been reported in the media.

As noted earlier in this report, one of the primary concerns related to existing rating systems is the lack of traceability. It is therefore necessary to pay close attention to the source and be very explicit, so the end user knows.

**"Trust is the biggest factor – you can't have points of fail."[72]**

*Alexander Gillett, CEO of How Good*


The experiences of Wikipedia and other projects that rely on user-generated content demonstrate that a combination of detailed guidelines and active communities can eliminate a lot of inaccurate content. Notwithstanding these controls, public platforms do invite distorted representations from both corporate sources and overzealous consumer activists.

There are fears that corporations can game any system with their large resources and PR teams, thus allowing them to be unfairly rewarded within a rating system. On the other hand, businesses note how NGOs use platforms to lobby, for whistleblowing and to further their interests by making a series of claims against companies. And then when companies are not responsive to demands, activists use the Internet to pepper management with detailed inquiries.[73]

These outcomes can lead to a modern version of 'the tragedy of the commons', where each individual maximising their own benefit leads to a negative collective outcome. For instance, many would agree that a fair playing field with some individual constraints is good for a healthy stakeholder dialogue, the incentives and behaviour of the individual contributors may work against that outcome.

**"It's really tricky to avoid simply sliding into a place where mud gets slung."[74]**

*Caroline Rees, President of Shift*

71. Interview with Manjit Jus, Sustainability Manager, RobecoSAM. 7 February 2014
72. Interview with Alexander Gillett, CEO, How Good. 19 February 2014.
73. Tapscott, D. & Williams, A. (2011) *Macrowikinomics: Rebooting Business and the World*. Atlantic Books.
74. Interview with Caroline Rees, President, Shift, 19 February 2014.

## Insight 4: The openness of open source is questionable when values are a filter

### *Opportunity*

The biggest strength of open source platforms is their openness. The bigger the crowd, the more diverse the opinions, the better. By using crowdsourcing as a form of 'watch-dog' or 'rating system', companies can feel real pressure to improve their performance.

### *Challenge*

As soon as sustainability criteria are introduced to a collaborative platform, the crowd is self-selecting. Hence, it is not a truly representative forum for opinions. Besides this, interpretation of value-laden concepts like social, ethical and environmental performance may add confusion rather than clarity.

Consumers and stakeholders have very different concerns. They also come with different agendas. There are facts and there are interpretations of facts. NGOs and businesses may likely disagree; and perhaps that tension may simply be unresolvable.[75] Perspective is everything.

**"A lot of sustainability information is qualitative: it's very subjective in terms what's good, bad, and different. It's also pretty hard to compare."[76]**

*Jules Peck, Founder of Jericho Chambers*

For the most part, consumers and stakeholders have very different sets of concerns. Any weighting system that is constructed will not satisfy everybody. "Values based ratings are very different – and materially so – from 'value' based ratings. Often we co-mingle the two", explains Mark Tulay, Program Manager for at Global Initiative for Sustainability Ratings.[77]


An organisation that has had to deal with values-based content is the BASEwiki (Business and Society Engaging for Solutions) project, a web 2.0 platform for information exchange and learning in the human rights space. It is a relatively small-scale wiki with well-informed stakeholders. When asked for feedback, the majority of the stakeholders emphasised the need for 'the site to have more centrally curated information due to the risks associated with quality control'.[78]

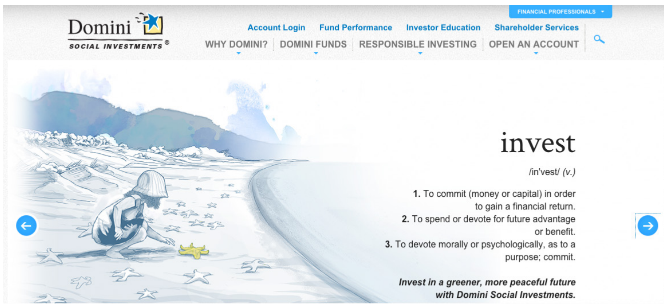
There is also a danger that unsubstantiated or false claims made on open source platforms could derail a constructive stakeholder dialogue that is already ongoing. In some instances, 'this could easily impede progress'.[79] A further repercussion is for different agendas to be introduced as a result of the participatory focus (because civil society groups are hugely disparate), which could affect on-going discussions negatively.

**"The essence of a Wiki platform is that you don't censor, but corporate companies have their compliance officers; and given how firms are regulated in the U.S., I'm not sure how much flexibility there will be for them to engage."[80]**

*Darby Hobbs, CEO of Social 3*

Not surprisingly, corporations are highly sensitive to any allegations put forward, whether substantiated or not. A truly open forum for opinions inevitably brings with it questions of legal liability, which are associated with the territory, especially in the litigious United States.

Steve Lydenberg. Chief Investment Officer at Domini Social Investments, observes that, in America, 'everything tends to be very carefully vetted by Counsel; and any public dialogue will involve companies corresponding statements to their public corporate responsibility reports – it will be a slow back and forth'.[81]




75. Interview with Steve Lydenberg, Chief Investment Officer, Domini Social Investments LLC, 14 January 2014.
76. Interview with Jules Peck, Jericho Chambers, 19 February 2014
77. Interview with Mark Tulay, Program Manager, GISR. 3 February 2014.
78. Interview with Caroline Rees, President, Shift. 19 February 2014. For more information on the project see: www.ACCESSfacility.org.
79. Interview with Michael Sadowski, VP, SustainAbility. 28 January 2014.
80. Interview with Darby Hobbs, CEO, Social 3. 14 February 2014.
81. Interview with Steve Lydenberg, Chief Investment Officer, Domini Social Investments LLC. 14 January 2014.

## Insight 5: Questions remain about the accountability ratings when the guardians are not guarded

### *Opportunity*

Accountability ratings have the potential for encouraging greater organisational transparency, especially on sustainability performance. By putting companies and issues in the spotlight, it also encourages them to be more accountable for their actions.

### *Challenge*

Every rating system is subjective – run by an institution and individuals with their own values and agenda. The methodologies use screening criteria for inclusion of content and rules for assigning scores to performance. How transparent are these processes, and who checks the consistency or fairness of the raters?

A core characteristic of any rating system – be it wiki-based, or created by experts – is that they end up presenting one view of the truth. Undoubted, there is debate that happens in the background, but this is ultimately hidden from the public, in favour of simplicity and readability. The values or biases inherent in those debates is also hidden from view. So who is checking behind the curtain? Who is guarding the guardians?[82]

The well-respected Business and Human Rights centre has been held up as a beacon of good (if imperfect) practice: whenever it receives an allegation, it goes out to the companies involved and asks for their comments; and likewise, they go to NGOs when businesses issue positive PR. Caroline Rees suggests this is like “a half-way house, which allows information to be shared, but also the chance to respond.” Even so, concerns remain.

**“Is it is possible to avoid becoming an online court of arbitration that passes judgment, or instead let allegations pass?”[83]**

*Caroline Rees, President of Shift*

The Ethical Consumer Research Association (ECRA) tries to mitigate against potential bias problems by extensive training of their researchers on how to vet and upload sustainability related information to its database. There is also a system of verification required by senior researchers.


Most acknowledge that it is incredibly difficult to vet information that comes in from users. Even for experts, it’s challenging to understand what the real story is.[84] We constantly need to ask: How transparent are these vetting processes, and who checks the consistency or fairness of the raters?

As the breadth and scale of issues increases, the challenges are multiplied. The solution may be to opt for more centrally curated information due to the risks associated with quality control.[85] Another is to set up an editorial committee structure, with several levels of research and checking.

**“An open source model is not necessarily a great model if not monitored by a third party.”[86]**

*Pratap Chatterjee, Managing Editor at Corpwatch*

82. Graham, M. Haarstad, H. (2011) ‘Transparency and Development: Ethical Consumption Through Web 2.0 and the Internet of Things’. Oxford Internet Institute.
83. Interview with Caroline Rees, President, Shift. 19 February 2014.
84. Interview with Michael Sadowski, VP, SustainAbility. 28 January 2014.
85. Interview with Caroline Rees, President, Shift. 19 February 2014.
86. Interview with Pratap Chatterjee, Managing Editor, Corpwatch. 6 February 2014.

## Best Practice Cases

The past few years has seen a boom in the creation of Web 2.0 savvy platforms and ratings that empower customers and communities with knowledge about the social, environmental and ethical impacts of the products and the companies that produce them. In fact, 2014 has been described as 'the tipping point for enterprise collaboration'[87] and some predict more crowd-based sourced information from various sources.[88]

**Here are signposts to some of our favourites:**

ethical consumer

**01** **Ethiscore.org** is designed to rank companies based on a range of criteria that can be customised to each person's ethical, political and environmental preferences.

GoodGuide™

Find Safe, Healthy and Green Products

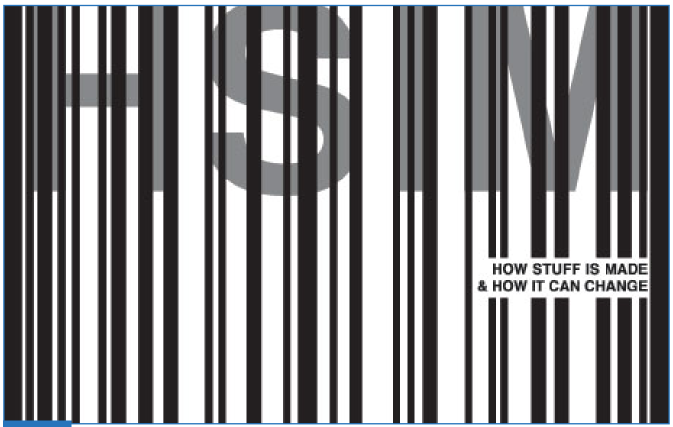
**02** **Good Guide** is in business to provide authoritative information about the health, environmental and social performance of products and companies. Its mission is to help consumers make purchasing decisions that reflect their preferences and values.


**03** **Global Forest Watch (GFW)** is an interactive website that improves transparency and accountability in forest management decisions by increasing the public's access to information on forestry developments around the World.

HowGood

**04** **How Good** allows shoppers to go beyond advertising hype and purchase products that are deemed best for their health, society, and the environment. Using over 60 indicators that cover a company's behaviour over time, the provenance of ingredients and the manufacturing process, they are able to compose a detailed, accurate picture of every product being rated.

87. Interview with Thomas O'Malley, Founder & CEO of Convetit. 17 January 2014.
88. Interview with Toomas Trapido, Founder, Things.info. 27 January 2014.




05 **Howstuffismade.org** is a visual encyclopaedia of the production processes of everyday goods.


08 **Supplyshift**, a cloud-based sustainability management platform designed to help companies engage with their suppliers and use sustainability information to improve supply chain performance and reduce risk.


06 **Knowmore** is a grass-roots, web-based community dedicated to chronicling and resisting corporate attacks on democracy, worker's and human rights, fair trade, business ethics and the environment, with a shared goal of a more informed and conscious consumer.


09 **Wikipositive** was set up to provide a free, open-access collaborative platform designed to be a simple starting point for social and environmental research.


07 **Star Communities** is a voluntary, self-reporting framework for evaluating, quantifying and improving the livability and sustainability of U.S. communities.


10 **WikiRate** is a community-driven initiative designed to "make companies clearer" by providing an open platform for corporate transparency. The information is created by and for anyone who interacts with companies, including consumers, employees, investors, management and regulators. See more detailed information on the following pages.

# THE CASE OF WIKIRATE

WikiRate is an independent, neutral, not-for-profit open community with a vision of driving deep corporate transparency so citizens can steer companies to create a better world. Platform participants work together to create informative, reliable profiles on companies' social and environmental performance. This comprises the "Wiki" part of WikiRate. In 2015, as part of their Beta release, they will also introduce metrics, the "Rate" part of WikiRate.

In 2016, they will roll out WikiRate 1.0, which will feature many more tools for calculating, standardizing, scoring, and visualizing ratings, multilingual support, and a host of other improvements. WikiRate 1.0 will make it possible for CSR data to be more abundant, organized, presentable, and usable than ever before. It aims to make ratings transparent, by allowing users to review and challenge every part of the process. It will make them scalable, by allowing communities and organizations to collaborate on populating the data on which the ratings are based. It will make ratings dynamic, by allowing people to re-use data to create new ratings. Further, metric designers will be rewarded for creating metrics that WikiRate users consider important, and it will reward companies for transparently providing data for those metrics.

However, WikiRate 1.0 is still just a first step, in which companies are still largely measured individually. The vision of WikiRate 2.0 is to measure them as part of a network.

## How will WikiRate do it?

Today you can already explore and contribute to the "Wiki" element of WikiRate. If you visit any company's page you will see lots of articles organised into social and environmental topics. These are community-edited, like most wikis, but WikiRate offers additional tools to make sure the articles are trustworthy and well sourced. Articles must cite claims, which are short, simple sourced statements about companies. The community openly discusses and votes on claims to determine their importance. The most important claims receive the greatest emphasis.

**"WikiRate is set up to fundamentally change the world of CSR ratings. Its 100% transparency, maximum potential for stakeholder involvement, its independence, its not-for-profit status and its innovative open-source data platform are all key ingredients to better ratings. But above all, WikiRate wants to assure a fair dialogue. We are not here to scold companies, but to engage stakeholders to help companies become better corporate citizens."**

*Philipp Hirche, Founder of WikiRate*

Soon you'll also be able to explore and contribute to the "Rate" element of WikiRate, which will help you compare companies directly using hundreds of different metrics. Just as with claims, you will also be able to choose which metrics you would like to appear most prominently for you throughout the site. As a community member you will be able to help contribute research on these metrics and even add your own.

WikiRate's ratings framework is designed to engage advocacy groups, company representatives, and individuals as respected contributors. Companies are rewarded for transparency, advocacy groups are rewarded for creating important metrics, and individuals can contribute to every aspect of the site. wikiRate.org isn't on a mission to name and shame; rather, it strives to use transparency to promote responsibility. A fair dialogue is at the core of their mission.

### What makes WikiRate so special compared to other rating providers?

WikiRate embraces a number of core concepts that point to the future of ratings:

- Full transparency on all levels – At WikiRate, there is 100% transparency on data and methodology. Even data that is NOT used in a rating is being made available.

- Potential for maximum stakeholder involvement – Any advocacy group can use WikiRate as a platform for their rating. There will thus be many different ratings focusing on different areas and with different levels of breath and depth on WikiRate. By starting a rating on WikiRate, advocacy groups can engage with their members, subscribers or volunteers to create, populate and disseminate a rating together. Companies will be encouraged to create a profile on WikiRate and participate in the dialog.

- Changing the question/answer game – Anyone will be able to post questions to companies regarding their CSR efforts on WikiRate. The model where many different rating providers ask the same questions to companies and the company responds separately is outdated. Any question and answer should be made public, and WikiRate aims to be the place to post questions and answers.

- Effective communication of the quality of content – The full transparency of WikiRate, combined with its voting system, allows appropriate filtering for and communication of the quality of content on WikiRate. WikiRate builds trust by clearly communicating the quality of content. There will be areas of excellence, likely where advocacy groups shepherd the rating process, and there will be areas where more time and community effort is needed to get to quality content.

- Independence - WikiRate is set up as a non-profit entity, relying on grants and donations by its members. We do not have conflicts of interests other commercial rating providers may have. Also, WikiRate understands itself not as an advocacy organisation (perhaps for transparency) but rather sees its main task to assure fairness in the dialogue and ratings on WikiRate.

- Vast extension potential – WikiRate's open data structure allows extensions to WikiRate to, for example, enable suppliers to self-report CSR information, or to collect feedback from affected employees or communities, and integrate this information in company ratings. Such extension will be captured in the future WikiRate 2.0

If you want to know more, you can visit the website at **www.wikiRate.org** (and come back frequently since WikiRate is in full development mode) or contact them directly on **info@wikiRate.org**. If you have data that you would like to share, or would like to organise a data-gathering campaign through engagement of your organisation's community, please do get in contact with them.

## ABOUT THE AUTHORS

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Scott Walker is the founder of advisory firm Nylon Consulting, a Public Affairs Director at award winning corporate affairs firm Sermelo, and also works an associate consultant at Kaleidoscope Futures. As a policy, public affairs, corporate sustainability and strategic communications specialist he currently advises a range of businesses and NGOs both in the UK and overseas. He previously worked with Columbia University to help teach a course on corporate social responsibility for several years. He gained both his BA (Hons) in Politics and Government and Masters in International Relations from the University of Kent, UK. In addition, he holds a Law Degree from BBP Law School. He concluded the Executive Master's in Public Administration (MPA) at Columbia's School of International and Public Affairs (SIPA).

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