УДК 378:811.111 (073)

ALTERNATIVE INDICATORS OF SUSTAINABILITY AND SOCIAL RESPONSIBILITY

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In this paper we present the alternative indicators of socio-economic development. In the first part of the study the macro-indicators are presented, and the second part deals with the corporate level, micro-indicators

I. Macro-indicators

Recently a number of alternative indicators have been developed. Their importance in politics and economic decision-making has increased. “In this new era of living within the means of one planet, GDP has become a less valuable indicator of progress.” Because GDP is a measure of market production and economic activity within a country, not of well-being. A number of publications deal with the system of alternative indicators: Bossel (1999); Stigliz et al (2008). We chose four alternative indicators (HPI, EPI,HDI, EFP) and we were looking for the most sustainable country. The best values are marked with bold in the 1 Table.

HDI

The Human Development Index (HDI) was first developed by the late Pakistani economist Mahbub ul Haq with the collaboration of the Nobel laureate Amartya Sen for the first Human Development Report in 1990. It was introduced as an alternative to conventional measures of national development, such as level of income and the rate of economic growth. HDI is a summary composite index that measures a country's average achievements in three basic aspects of human development: health, knowledge, and income (GNI). The HDI sets a minimum and a maximum for each dimension, called goalposts, and then shows where each country stands in relation to these goalposts, expressed as a value between 0 (worst) and 1 (best).

EFP

The Ecological Footprint (EFP) uses yields of primary products (cropland, forest, grazing land and fisheries) to calculate the area necessary to support a given activity. A nation’s consumption is calculated by adding imports to and subtracting exports from its national production. Results from this analysis shed light on a country’s ecological impact. The optimal value is 2 gha/person or less (sustainable).

HPI

The first Happy Planet Index (HPI) was launched by nef (the new economics foundation) in July 2006. “In essence, the HPI is an efficiency measure: the degree to which long and happy lives (life satisfaction and life expectancy are multiplied together to calculate happy life years) are achieved per unit of environmental impact.” The maximum value is 100 (best).

EPI

The 2010 Environmental Performance Index (EPI) ranks 163 countries on 25 performance indicators tracked across ten policy categories covering both environmental public health and ecosystem vitality. These indicators provide a gauge at a national government scale of how close countries are to established environmental policy goals. The maximum value is 100 (best).

Table 1. **Alternative indicators**

	EFP (2007)[1] (gha/person)	HPI (2005)[2]	HDI (2010)[3]	EPI (2010)[4]
world average	2,7	43,38	0,624	58,4
Hungary	3,0	38,86	0,805	69,1
Iceland	na	38,14	0,869	**93,5**
Switzerland	5,0	48,05	0,874	**89,1**
Costa Rica	2,7	**76,12**	0,725	**86,4**
Sweden	**5,9**	47,99	0,885	**86**
Timor-Leste	**0,4**	na	0,502	na
Bangladesh	**0,6**	54,09	0,469	44,0
Afghanistan	**0,6**	na	0,349	na
Haiti	**0,7**	50,84	0,404	39,5
Norway	5,6	40,36	**0,938**	81,1
Australia	6,8	36,64	**0,937**	65,7

[1] ww.footprintnetwork.org
[2] http://www.happyplanetindex.org/
[3] http://hdr.undp.org
[4] http://epi.yale.edu/Countries

Three main results are:

1. among the studied countries. Cost Rica has the best position,
2. there is no country which would be in a good position according to all indicators,
3. we cannot decide whether a country's sustainable based on a single index.

The ecological footprint indicator is also used to calculate a company's environmental impact. This calculation methodology is developed, but the reliability is lower than the national calculations, so best practises are available.

II. The company-level indicators of sustainability

Traditionally, the corporate performance is evaluated based on corporate balance sheets and business reports with financial indicators. Such indicators are well-known in corporate finance, such as ROE, ROA, ROS, ROI, EPS. Corporate social responsibility and companies' role in sustainable development presented the need to develop new indicators. These indicators are becoming more widely known and applied. Below we present the most important ones.

Dow Jones Sustainability Indexes

The Dow Jones Sustainability Indexes (DJSI) were launched in 1999 as the first global sustainability benchmarks. The indexes are offered cooperatively by SAM Indexes and Dow Jones Indexes, the marketing name and a licensed trademark of CME Group Index Services LLC. The family tracks the stock performance ofthe world's leading companies in terms of economic, environmental and social criteria. The indexes serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for companies who want to adopt sustainable best practices. (For example see Table 2.)

Table 2. **Sustainability performance of BMW AG**

Source:http://www.sustainability-index.com/djsi_pdf/Bios201109/SectorLeaderReport_BMW%20AG_AUT%20Automobiles.pdf

The annual assessment is based on an online questionnaire supported by extensive company documentation. Thorough analysis of company-specific information are complemented by an additional examination of media coverage, stakeholder commentaries and other publicly available sources. The questionnaire features about 100 questions on economic, environmental and social issues with a focus on industry-specific criteria that have a material impact on the companies' ability to generate long-term value. The company sustainability assessment is regularly updated and adapted to capture new sustainability trends that are at the forefront of each industry sector and that are likely to have an impact on companies' competitive landscape.

The DJSI consists of World Index, Europe Index, Asia Pacific Index, North America Index and Korea Index, and it enables enterprise, sectoral and regional comparisons.

FTSE4Good Indexes

The FTSE4Good Index series is a series of ethical investment stock market indices launched in 2001 by the FTSE Group. A number of stock market indices are available, for example covering UK shares, US shares, European markets, and Japan, with inclusion based on a range of corporate social responsibility criteria. Research for the indices is supported by the Ethical Investment Research Service (EIRIS). This new data service provides a comprehensive, transparent and objective system to measure the Environmental, Social and Governance (ESG) practices of over 2,300 public companies worldwide. There is an increasing awareness that ESG factors are an important component in understanding corporate risks and performance, and in theachievement of long-term, sustainable investment returns. In the decade ahead the integration of ESG factors into investment analysis, decision-making and stewardship is expected to increase.

Table 3. **Highest scoring companies in accordance with FTSE4Good ESG Ratings**

Company	***Country***	***Sector***	***Overall Rating (Absolute)***
Aviva	UK	Insurance	5
Bank Hapoalim	ISR	Banks	5
Vivendi	FRA	Media	5
Westpac Banking Corp	AU	Banks	5
ABB	SWIT	Industrial Goods & Services	4,9
BT Group	UK	Telecommunicati ons	4,8
Capita Group	UK	Industrial Goods & Services	4,8
Diageo	UK	Food & Beverage	4,8
Insurance Australia Group	AU	Insurance	4,8
Koninklijke Philips Electronic	NETH	Personal & Household Goods	4,8
Nokia	FIN	Technology	4,8
Norsk Hydro	NOR	Basic Resource	4,8
RSA Insurance Group	UK	Insurance	4,8

Source: http://www.ftse.com/Indices/FTSE4Good_IBEX_Index

The FTSE4Good ESG Ratings provide institutional investors with a flexible and granular scoring model which will enable them to understand a company’s ESG practices in multiple dimensions: overall ESG rating, scores against a broad Environmental, Social and Governance pillar and measurement against six ESG criteria themes, including environmental management, climate change, human and labour rights, supply chain labour standards, corporate governance and countering bribery.Academic research suggests that inclusion in or exclusion from the index does not significantly affect firm behaviour, and that investors focusing on the indices do no worse on average than those who invest without regard to them.

Global Reporting Initiative (G3)

The Global Reporting Initiative (GRI) drives sustainability reporting by all organizations. GRI produces a comprehensive Sustainability Reporting Framework that is widely used around the world to enable greater organizational transparency. The Framework, including the Reporting Guidelines, sets out the Principles and Indicators organizations can use to measure and report their economic, environmental, and social performance. GRI is committed to continuously improving and increasing the use of the Guidelines, which are freely available to the public.

The Guidelines’ development is influenced by changes in the reporting field, such as the introduction of new concepts, trends and tools, and requests by new players. By developing guidance, GRI aims to drive and direct sustainability reporting, towards a sustainable global economy. The landscape of sustainability reporting is evolving; this should influence the development of GRI's guidance. More stakeholders than ever – including regulators, investors, rating agencies and NGOs – are asking for non-financial data.The GRI Reporting Framework is intended to serve as a generally accepted framework for reporting on an organization's economic, environmental, and social performance. It is designed for use by organizations of any size, sector, or location. It takes into account the practical considerations faced by a diverse range of organizations – from small enterprises to those with extensive and geographically dispersed operations. The GRI Reporting Framework contains general and sector-specific content that has been agreed by a wide range of stakeholders around the world to be generally applicable for reporting an organization's sustainability performance.

There are three different types of disclosures contained:

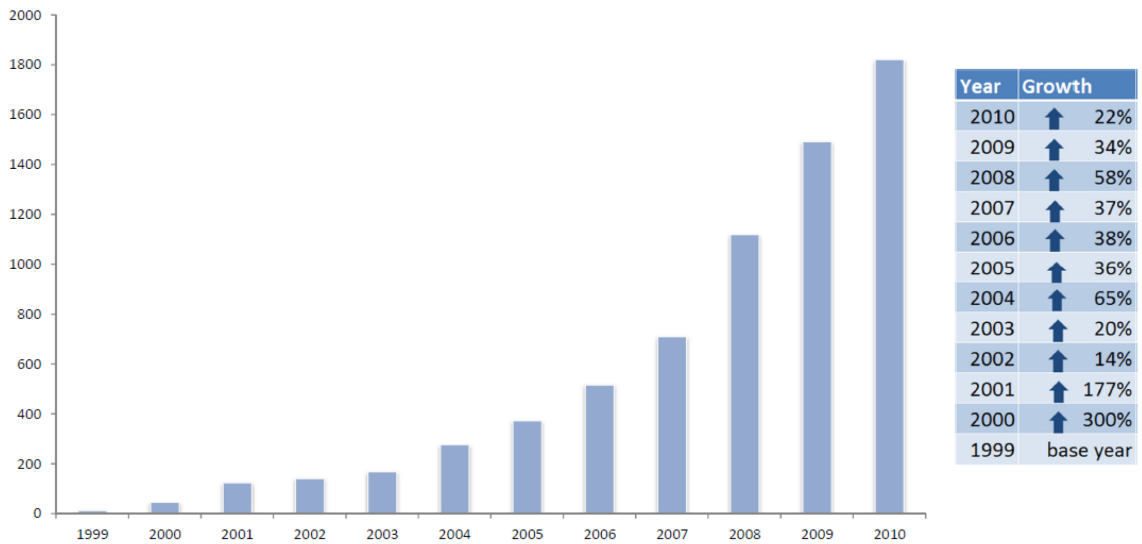
1. Strategy and Profile: Disclosures that set the overall context for understanding organizational performance such as its strategy, profile, and governance.

2. Management Approach: Disclosures that cover how an organization addresses a given set of topics in order to provide context for understanding performance in a specific area.

3. Performance Indicators: Indicators that elicit comparable information on the economic, environmental, and social performance of the organization.

The section on sustainability Performance Indicators is organized by economic, environmental, and social categories. Social Indicators are further categorized by Labor, Human Rights, Society, and Product Responsibility. Each category includes a Disclosure on Management Approach ('Management Approach') and a corresponding set of Core and Additional Performance Indicators.The economic performance indicators are economic performance, market presence and indirect economic impacts. The environmental performance indicators consist of the following aspects: materials; energy; water; biodiversity; emissions, effluents, and waste; products and services; compliance; transport and overall. The social dimension of sustainability concerns the impacts an organization has on the social systems within which it operates. The GRI Social Performance Indicators identify key Performance Aspects surrounding labor practices, human rights, society, and product responsibility.

Figure 1 GRI reports 1990–2010



Source:http://www.globalreporting.org/NR/rdonlyres/EDEB16A0-34EC-422F-8C17-57BA6E635812/0/GRIReportingStats.pdf

The next generation of GRI Guidelines – G4 – should address requirements for sustainability data, and enable reporters to provide relevant information to various stakeholder groups. It should also improve on content in the current Guidelines – G3 and G3.1 – with strengthened technical definitions and improved clarity, helping reporters, information users and assurance providers.GRI's mission is to make sustainability reporting a common practice: GRI's guidance must be fit for purpose. To achieve this, three main challenges must be met: to help companies report to all their different stakeholders, to promote harmonization of available frameworks and principles, and to provide sustainability reporting guidance suitable for companies that wish to integrate their financial and non-financial performance data.

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