Leena Wokeck June 2, 2008
Global Reporting Initiative
Officer Resource Development External Relations
Amsterdam
The Netherlands

Dear Ms. Wokeck:

Symbiotic Engineering (SE - assurance provider), Ecologic Designs (ED – a/k/a "green guru," the Reporting Organization) and Valparaiso University (VU - academic oversight provider per GRI Matchmaker program) believe that developing common and international protocols for corporate sustainability reporting (CSR) is beneficial and represents an important step to accurately benchmarking businesses. With literally hundreds of "sustainability management plans" in existence, the ability to use and compare transparent data – resulting from sustainability initiatives – and to identify current trends, is difficult. We also realize that understanding the importance, or even existence, of a common protocol and preparing a CSR report is often limited by the lack of resources for small and medium enterprises (SMEs). SMEs are a significant sector of the business community, significantly impacting communities as they perform a central role in defining a nation's employment and shaping a community's viability.

Work Performed

The tasks performed during the preparation of ED's CSR are described below.

- ED completed a sustainability report for the year 2007 following the G3 GRI framework and reported on all economic, environmental, and social indicators.
- SE completed an objective external assurance report based on the AA1000AS-2008 standard. The only interaction between SE and ED during the preparation of the CSR was an initial discussion of the protocols and establishing overall responsibilities and timelines. Following ED's completion of their CSR, SE conducted a site visit to review certain datasets for verifying certain indicators.
- VU provided an overall critique of both ED's and SE's tasks to identify risks or conclusions not stated in either report. VU also provided comment on methodologies for further SME inclusion into the GRI reporting framework.

Lessons Learned

Symbiotic Engineering: As with any assurance provider, the goal is to provide constructive criticism and identify risks as well as opportunities that were not identified in the Reporting Organization's CSR report. However, for SMEs, particularly in the United States perhaps, GRI is not commonly known. Our first step was to introduce the protocol and all indicators to illustrate the depth of reporting requirements. This required that the GRI guidelines and indicators be reduced to an overall "plan" that was readily seen as a significant tool for ED. During the review of the CSR, the primary comment was that preparation for next year's report begins immediately and a committee should be dedicated to weekly issues regarding stakeholder inclusion and responding to comments from the previous year to identify potential pitfalls. Finally, the importance of a site visit to verify data claims was critical to delivering assurance of transparency. SE will require this in any future assurance reports.

Ecologic Designs: Ecologic Designs is proud and thankful to have taken part in the GRI process and the Matchmaker program. We are a start-up manufacturer with a new perspective on SME operational modeling and domestic, sustainable production. Our Matchmaker partners returned valuable feedback, and in addition to the infrastructure needed to conduct this project, our company is positioned to accelerate our own industry and share with many others about how to integrate our processes into their own.

Valparaiso University: After becoming familiar with GRI guidelines and other available universal protocols, we purposely decided to first engage in self-critique and then in the examination of the GRI system for any perceived inherent deficiencies. Only at that point, did we then review ED's report and outline our comments regarding both the strengths and deficits of the information supplied. SE's report was reviewed last, and it was interesting to note that several conclusions were shared with SE while other observations were very different in nature. I believe that to obtain a more comprehensive analysis in the future, an MBA and/or an upper-level business class should be developed at Valparaiso University to continue as a more effective participant in the matchmaker program.

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Sincerely,

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June 2, 2008
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Ecologic Designs, Inc.

Robert W Bogatin

Robert W. Bogatin, VP Business Operations, Owner
DATE: March 15^{th}, 2008

Valparaiso University

Elizabeth Gingerich

Elizabeth F. R. Gingerich, J.D., Associate Professor of Business Law,
DATE March 22, 2008

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Global Reporting Initiative (GRI): The Interplay of Corporate Reporting, Independent Auditing and Academic Critique

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ABSTRACT
In an era of exposed corporate greed and resulting stakeholder demand for more comprehensive and pervasive accountability, standard concepts of business ethics and environmental stewardship have evolved into more powerful markers of corporate social responsibility and company sustainability reporting (CSR). Universal guidelines have been developed and periodically updated and refined to promote increased operational transparency and to level informational reporting asymmetries. The demands and expectations of investors and other entities affected by a business's operations have served as a catalyst for the development and implementation of universally accepted standards to benchmark an organization's performance. In this discourse, one such example of a company's voluntary reporting pursuant to Global Reporting Initiative (GRI) G3 international standards is presented as are the findings of a third party engineering auditor, and finally a critique of both submissions as well as commentary on the voluntary international reporting system generally, offered by a Midwestern university academician.

I. INTRODUCTION

Within the past decade, societal outrage at widely-publicized instances of egregious financial exploitation primarily at the expense of the investor and the employee (e.g., Enron, ImClone Xerox, Tyco, WorldCom, ADM) has generated a re-energized focus on the corporation's moral, social and environmental contract to society. Even schools of business, fueled by the desires of their students, are advocating the mandatory instruction of business ethics classes in academic curriculi.[1] In the wake of addressing corporate malfeasance by manufacturing quick-fix solutions in the form of piecemeal national legislation[2] and stiffened criminal penalties[3] against the most prominent nefarious corporate players, long-term monitoring systems have been evolving concomitantly on an international scale. The catch? Subjecting a business to this type of comprehensive reporting is both a ***voluntary*** act and necessarily expands the category of ***shareholder*** into the multi-faceted ***stakeholder***.

II. BACKGROUND

With the revelation of Enron leaders' concerted and intentional efforts to artificially inflate stock value and subsequently liquidate individual holdings ("pump and dump") for self-gain at significant detriment to public investors and Enron mainstream workers – including long-term employees facing retirement with employer-sponsored pension plans largely consisting of Enron stock – the enormity of the devastating consequences of corporate greed was brought to the public forefront in such a manner that swift and severe reaction was collectively mandated. Soon thereafter, companies were preparing and publicizing newly adopted and revised comprehensive business ethics policies. This was followed by the release of former Vice-President Al Gore's documentary, *An Inconvenient Truth*, the premise of which was disbelieved or purposefully ignored by so many in positions of power for so long, but ultimately accepted by mainstream society with the confirmation by the scientific community of the increasing debilitating effects of greenhouse gases to human and ecological survival. The melting of the polar icecaps at a surprising rapid rate and the persistent drought eco-disasters in sub-Sahara Africa have resulted in catastrophic death and disease and relegated an increasing number of animals to endangered species status. These phenomena have increased public awareness for immediate lifestyle change and more prevalently, for greater business accountability and sustainability. Newfound focus on proper health has not only generated the proliferation of eco-friendly products, but has additionally translated into increased financial investments in "socially responsible" and/or "environmentally-friendly" stock and mutual fund holdings, changing investor expectations of return on investment (ROI) (Bartiromo, 2008) and advocating the concept of ethical consumerism.

Commensurate with new individual choices, the business world has been provided with several universal CSR protocols (Corporate Social Reporting or Corporate Sustainability Reporting) to assist with ethical, social, and environmental reporting – the "triple bottom line" – by aiding the potential investor in his or her investment decision-making (Carroll and Bucholtz, 2006). CSR's incorporation of major categories of social, economic and environmental reporting indices has historically undergone definitional changes reflecting society's demands and expectations at any specific moment in time throughout the world (Reynolds and Yutha, 2008). For purposes of enticing the potential investor and appeasing the environmental watchdog, standard financial data is now being combined with sustainability data into a single annual report (Environmental Leader, 2007). This call for regular and responsible reporting is summarized by Al Gore, Chairman of Generation Investment Management, as follows:

> Capitalism and sustainability are deeply and increasingly interrelated since our economic activity is based on the use of natural and human resources. More transparency in reporting, as exemplified by the GRI, will help us more broadly 'price in' the external costs of investment decisions. This, in turn, will help enable capital markets to achieve their intended purpose – consistently allocate capital to its highest and best use for people and the planet" (globalreporting.org/NewsEventsPress).

The following actions serve as a collective indication of how rapidly businesses, cities and countries have answered the call for greater transparency in reporting and the implementation of sustainability procedures:

> In late 2007, BusinessWeek announced that Honda chief Takeo Fukui announced his company's goal to surpass the battle with Toyota for eco-supremacy in the automobile manufacturing business (Rowley, 2007, pp. 1-2);

Sears and Kmart have both vowed to phase out toxic polyvinyl chloride or PVC, the key element of vinyl, which poses a risk of lead exposure, especially if made in China (Laumer, 2007);

In 2007, PG&E (Pacific Gas & Electric), once the notorious corporate misfeasor highlighted in the film *Erin Brokovitch*, signed an ocean-powered, clean energy purchase agreement with Finavera Renewables (*Energy Resource*, 2007);

The City of London recently released its sustainability plan for hosting the 2012 Summer Olympic Games, deemed to be the most earth-friendly Olympic games in modern times by the Olympic Delivery Authority (*Environmental Leader,* 2007);

Nokia's new phone, the 3110 Evolve, contains "bio-covers" made from over 50 per cent recyclable materials, a new energy efficient charger and packaging comprised of 60 per cent recycled material (Lattimore, 2008); and

In 2007, Ireland announced its intent to ban incandescent light bulbs in favor of energy-saving alternatives by 2009 (Hoskins, 2007).

III. SHAREHOLDER V. STAKEHOLDER

At a time when business is facing conflicts that far exceed corporate malfeasance and the domestic market has morphed internationally, there was been a transfer of focus from the individual "shareholder" to the varied and multi-faceted "stakeholder." In current literature, the "stakeholder" has been defined to include "any individual or group who can affect or is affected by the actions, decisions, policies, practices, or goals of the organization" (Carroll and Bucholtz, 2006, p. 67). Therefore, under this broadened term, the "stakeholder" would represent a company's other critical constituents, including its employee pool, union representatives, the media, political units, geographic areas affected by the presence of the product manufactured or service rendered, related markets, underdeveloped and developing countries, the larger eco-system, and ostensibly, the consumer.

Shareholders, by common definition and historical development, have encompassed persons who invest in companies, acquiring tangible evidence of their respective investments – usually in the form of stock certificates – who expect quick, favorable financial returns. With worldwide market symbiosis, the individual concern has had to defer to more defined collective consequences. With the realities of CO2 emissions threatening the ecological balance and dangerously placing all life forms in serious peril, transparent reporting and comprehensive accountability have risen to the forefront in the search for remedial answers. Therefore, the manufacture of products and creation of services must now be measured against the effects and impact upon the "stakeholder."

IV. INTERNATIONAL REPORTING GUIDELINES

Measuring this type of impact, without a legal worldwide mandate, must be a voluntary action, using guidelines that have been developed to adequately measure performance. Businesses who do offer themselves to such scrutiny integrate their financial, environmental and social performance reports into a single publication available to the public for open review.

GRI or Global Reporting Initiative Sustainability Reporting Guidelines, is an independent reporting group of standards that offers a universal method of sustainability reporting. The GRI Sustainability Guidelines are recognized as the most integrated framework for disclosure of a business's social and environmental performance (Ord, 2008), incorporating a broad range of performance metrics (Reynolds and Yuthas, 2008, p. 54). Other social reporting systems include the ISO 14000 series (International Organization for Standardization), an internationally recognized environmental certification process which moves beyond mere compliance to developing policies of continuous improvement – regarded as more inclusive of all societal and environmental stakeholders (Reynolds and Yuthas, 2008 p. 51); ISEA Standard AA1000 (Institute of Social and Ethical Accountability), a standard which primarily focuses on social and ethical accounting; the Copenhagen Charter, an international standard involving stakeholder communications and the commitment of key management figures to open dialogue with certain identifiable stakeholders; SAI 8000 (Social Accountability International), a system of accounting which primarily focuses on the organization's labor practices; and EMAS (European Management Audit System), measurement indicators primarily targeted to EU-based companies espousing environmental policies. This discourse will concentrate on GRI reporting standards with only cursory reference to alternate reporting systems.

V. THE EVOLUTION OF GRI REPORTING

GRI was first developed in 1997 – partially in response to the 1989 Exxon Valdez offshore oil spill in Alaska – by the Boston-based company, CERES (Coalition for Environmentally Responsible Economies), and quickly evolved into a separate division. In 2002, the United Nations Environmental Program (UNEP) bolstered the international credibility of GRI by incorporating the division as a non-profit organization, relocating its headquarters to Amsterdam (Buchanan, Herremans and Westwood, 2008). Numerous changes to GRI measurement standards precipitated by multi-stakeholder input, resulted in the third version of the guidelines, or G3, launched in October of 2006. Currently, GRI is regarded as one of the most well-recognized and adopted methods of sustainability reporting (Buchanan 2008) and has been adopted by more than 60% of the Global 1000 corporations and a plethora of NGOs, including the United Nations ((Reynolds and Yutha, 2008, p. 563).

G3 reporting elements are grouped into categories of economic, environmental and social factors. Each of these categories is then further subdivided into individual metrics identified as "Core" or essential components and "Additional" or supplemental components. The designation of a letter rating from "A" to "C" depends upon the number of metrics addressed and the quality and correctness of the material provided. Essentially, the measurement metrics could be identified as ***how*** the report is presented (e.g., its clarity, level of assurances, and timeliness), ***what*** the report should contain as outlined by GRI's economic, environmental and social indicators, and ***who*** the submitted material affects (a designation of that entity's stakeholders).

In addition to letter ratings, GRI offers plusses and minuses, with A+ ostensibly representing the ultimate rating of integrated performance.[4] Juxtaposed to comprehensive CSR (qualitative reporting), it is less difficult to audit financial records as numbers (quantitative reporting) are less subject to multiple interpretations. Thus, independent audits of the G3 factors are needed to substantiate the credibility of a reporting organization and to affirm the veracity of its non-financial components.

VI. INHERENT DEFICIENCIES IN VOLUNTARY REPORTING

Ostensibly, there will always be deficiencies in any type of reporting which involves any degree of subjectivity. And without mandatory reporting, how truly effective is reporting on a voluntary basis? Without a universal mandate for CSR, certain queries are inevitable. For instance, how truly comprehensive is a company's voluntary effort to reveal its strengths and deficiencies as well as define the overall ramifications of its business operations on its stakeholders? What are the organization's checks and balances and are they implemented on a temporary or permanent basis? What safeguards are in place to separate rhetoric from reality?

One would naturally expect there be a certain amount of "green-washing" and sugar-coating of facts incorporated within the report to lure the would-be investor and repel the investigating consumer advocate or inquiring politician. If the stakeholder is being given an increased role in dialoging with the reporting company, should not the stakeholder then participate in that business's development of its organizational scheme, its growth and business goals, and its particular mission? Reporting *to* or *about* non-traditional stakeholders would logically pre-suppose that these interested parties are in continual discourse with the reporting entity.

Self-reporting presupposes that the reporter is speaking the truth and it is not always possible to confirm the substance of the information disseminated. It is usually a chief officer who selects the information to be released which material might be technically correct but present a distorted image of the business's operations. Trade secrets – encompassing everything from a product recipe to a customer list – are given special exemption protection, but such absence of information may undercut the goal of comprehensive transparent and sustainability reporting.

While GRI identifies detailed reporting standards, it is still the prerogative of the reporting entity to define its particular stakeholders. Role-switching with the stakeholder may represent an effective means to determine the needs of the impacted individual or entity and serve to stimulate greater open discourse (Habermas, 1990).

VII. THE GRI MATCHMAKER PROGRAM

The GRI organization inaugurated a "matchmaker" program with the launching of its G3 Protocol (www.globalreporting.org/matchmaker). The program facilitates and encourages the partnering of companies with independent verifiers to deliver feedback and analysis in the form of advice and recommendations. CSR is thus presented as a three-tiered method of reporting: reporting, auditing and critiquing). Business entities voluntary submit information concerning their operations, nature and composition of products produced, scope of business influence and dealings, and details of labor and management interaction (the reporting element). The information disseminated is then audited by an independent entity that is allowed access to the company for verification, follow-up and substantiation of information provided (the audit/verification element). Finally, as an affirmation of the auditing process, an institution of higher learning is invited to review and assess the reports disseminated by both entities (the critique element). The findings of all three organizations are then summarized and the company is then rated. This rating and the G3 Protocol conclusions are stored on-line with GRI, offering to the public additional details regarding stakeholder effect.

While GRI does offer a matchmaking process which essentially allows for a double-check on the reporting company's material by both the independent auditor and the academic reviewer, there is no template and little formal guidance provided for the critiquing process.

VIII. THE PARTICIPANTS AND THE PROCESS OF REVIEW

As described in the Memorandum of Understanding (MOU) attached as Appendix "A," **Ecological Designs, Inc**. **(ED),** a Colorado-based manufacturing company producing sporting equipment and clothing, voluntarily reported its business practices and operations pursuant to GRI – G3 standards. ED's report is attached hereto and marked as Appendix "B."

The independent auditing firm of **Symbiotic Engineering, Inc. (SE),** also Colorado-based, functioned as the independent auditor assessing the findings of the reporting company's components which verification process included an on-site inspection. Its audit is attached hereto and marked as Appendix "C."

Finally, as an assurance to both the content the company and the auditor's reports, **Valparaiso University's Urschel College of Business Administration (VU CBA)** offered its independent evaluation and comment on the substance of both reports through GRI's "Matchmaker" Program.

All three parties recognize the importance of employing all reasonable measures to ensure against the appearance of impropriety or conflict of interest in the reporting, verification, and critiquing processes. With respect to this case study, there was no monetary or other transfer of consideration made or requested for the work performed other than the reporting company's voluntary charitable gift to an African orphanage. Additionally, prior to reviewing ED's report and SE's audit, this reviewer elected to first examine the background and development of the G3 standards, research the reporting company's report prior to reviewing the audit, and finally, examine the audit in detail. As a result thereof, there may be several comments regarding ED's report already addressed in SE's audit. Any such duplication, however, was derived from independent analysis.

ED, a small to medium-sized enterprise (SME), employed Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines to benchmark performance, registering an "A" rating Application level. As previously discussed, plusses are only available when the reporting company goes beyond self-reporting and requests third party assurance verification, either by an independent entity or directly through GRI. SE, the verifying firm, aligned G3 reporting with AcountAbility's AA1000 AS 2008 Standards, to authenticate the quality and credibility of economic, environmental and social performance indicators. While SE audited ED's findings in chronological order, accepting or rejecting each indicator addressed, the format of this report is to comment generally on the major issues presented by ED – not necessarily in order of perceived importance – and to propose possible recommendations for future planning and remediation and to offer commendation for the business's achievements and goals.

IX. SPECIFIC OBSERVATIONS

Prior to critiquing the reports issued by the reporting company and the auditing firm, it was important to additionally offer at least a cursory self-examination in furtherance of the theme of transparent reporting.

<u>Valparaiso University</u>:

(a) <u>Strengths</u>:

1. The author, both an associate professor in business law at the undergraduate and graduate (MBA) levels of the VU CBA and a practicing attorney for over 25 years, reviewed the measurement components of the GRI Guidelines (G3) and the submissions of the reporting company (ED) and of the auditor (SE) with the input of several engineering students and a graduate in the humanities.
2. There is less at stake for the academic reviewer as the possibility of future compensated business services is neither expected nor would be accepted.

(b) <u>Deficits</u>:

1. As compared with other academic reports rendered by previous matchmaking partnerships (see, e.g., University of Calgary Haskayne School of Business critique of Vancity – Canada's largest credit union – and Boise State University partnering with Natura Cosmeticos, a Brazilian industry and Boise Company, a regional wood and paper processing company) (Buchanan, Herremans and Westwod, 2008), there have been no separate undergraduate or masters of business course offerings established for this purpose
2. Unlike SE, VU CBA did not conduct any on-site observations of either entity due to time and proximity constraints, but relied upon written materials submitted by both as well as scholarly articles concerning CSR and GRI reporting.
3. While the author has a familiar relationship with one of the principals of SE, it is asserted that as professionals in two very different fields – engineering and law respectively – there have been no incentives to advise or to render any type of pre-determined evaluation, rating or recommendation.

<u>Ecological Designs, Inc.</u>:

(a) <u>Strengths</u>:

1. The nature of the products produced must first be examined for their relevance and usefulness to society. Sporting equipment and apparel

might be regarded by some as unnecessary and elitist in nature as the predominant use is for leisure and hobby purposes. However, a growing number of individuals throughout the world are suffering from obesity and inactivity, resulting unnecessarily in a greater depletion of resources and energy usage. According to a recent study released by *The Conference Board* on April 9, 2008, the rate of obesity in the United States was declared to have doubled in the last 30 years with 34 percent of American adults fitting the definition of "obese." Obese employees are further estimated to cost U.S. private employers $45 billion annually in medical costs and work losses (Barrington, 2008). Increased activity and wellness will invariably result in less demand for fuel for transportation and agriculture (Kahn, 2008). Therefore, against this backdrop, ED's products assist to ameliorate the energy crisis by providing low-cost products which aid and encourage physical fitness.

2. The recycled materials used by ED were most likely produced by other companies using manufacturing means that most likely contributed to land, air and/or water pollution. The fact that ED recycles this material for a secondary purpose, sparing landfill space and decreasing greenhouse gas emissions from incinerators and contaminants from groundwater, is most likely the most attractive and eco-friendly feature of this business. There is some concern, however, as to how the materials are converted and the details of these processes do not present evidence of 100% recapture of pollutants.
3. ED has taken a comprehensive approach to respecting the importance of biodiversity as shown by its use and development of eco-preservation policies. ED's commitment to the preservation of biodiversity is supported by its formation of alliances with other "green" partners, demonstrable knowledge of the interrelations of ecological tiers, awareness of locally protected nature preserves, the establishment of incentive policies for the use of bike transportation, and use of biodiesel fuels for its automobiles.
4. Whereas a small company like ED may not have the inner social dynamics faced by much larger, more established companies, the organizational schematic presented by ED shows less of a hierarchical configuration and more parity of leadership and innovation. Lack of hierarchy allows for genuine camaraderie without foregoing centralized leadership and guidance. ED's workforce appears to play a significant and important role in the production process.
5. ED appears to equal and in some cases, surpass the performance indicators of its peers.
6. In terms of ED's environmental performance, removing recyclable material from landfills is particularly important as such material does not decompose in the same manner as if left in nature or in a compost pile. Rather, these materials decompose anaerobically (without the aid of oxygen) and in the process have been cited to be "the number one source of human-caused methane and a major player in climate change." In fact, methane is approximately 72 times more potent than CO2 over a 20-year

period of time –the equivalent of 20 percent of U.S. coal-fired power plants each year (Zero Waste and Climate Change).

7. Immediate owners (i.e., its shareholders) are intimately involved in the corporation's mission and operations unlike the usual scenario of passive figureheads controlled by a disconnected board of directors.
8. The company's name and trademark labels, Ecological Designs and Green Guru, sound very appealing and are alluring to the consumer. The company must continuously examine its operations to assure its stakeholders that its key marketing words "ecological" and "green" are well deserved to avoid misleading the public. As in the case with *Beyond Petroleum* f/k/a *British Petroleum*, public cynicism and critique have increasingly developed to this company's perceived "green-washing" business operations. In addition to changing its name to a more eco-friendly sounding one, it adopted the Greek *Helios* logo of a budding flower shown in shades of green, yellow and white – the symbol of springtime and everlasting beauty. In reality, BP was named as the top polluting company in the U.S. in both 2001 and 2006 (Mokhiber and Weissman, 2006) (Wright, 2007, pp.10-11). Confusing perceptions have inevitably led to greater public scrutiny as false dichotomies of "ethics" have been pitted against "self interest" (Pulver, 2007).

(b) <u>Deficits</u>:

1. Upon initial review of ED's submission, the component of clarity – the *how* of the report – was immediately noticeable. As this company's report is intended for universal review, it should provide both a table of contents which more readily identifies the G3 metrics addressed and more importantly, a definition page for the many acronyms used. While many in business and law are familiar with "B2B" (business to business) transactions and "S" or small, closed corporations, many readers will be unable to decipher the acronyms used and the flow will inevitably, and unnecessarily, be interrupted. Additionally, many sentence fragments, vernacular descriptions, punctuation and diction errors could be corrected to make the report more professional and reader-friendly to the international audience.
2. The most obvious disadvantage of this company in sustainability reporting is due to its size and the amount of time it has conducted business operations (incorporated in 2005; first reporting year in 2007). Therefore, it is not possible for ED to monitor adequately the efficacy of its sustainability plans and programs. Rather, ED could first identify its most immediate peer competitors and compare policies and performance indicators. It would appear that possible comparable peer businesses would include *Recycline*, a Washington-based eco-friendly consumer products company which won a top business operations award in 2007 from *Forbes* (http://www.forbes.com/byb/byb07_recycline.html) and Eco-Cycle–Center for Hard-to-Recycle Materials, a city-supported recycling business, also situate in Boulder.

3. The limited number of employees precludes an assessment of dynamics between labor and management forces. At the time of its report, there was no union activity at ED.
4. The majority of the laborers at ED are independent contractors (IC), i.e., its 16 sewers. Many companies of all sizes, from the reporting company to multinational corporations including, most notably, UPS and FedEx, are moving away from an on-site workforce to contracting out to private individuals or to other businesses, primarily to decrease operating costs and to limit liability. The U.S. Department of the Treasury, the Internal Revenue Service, the National Labor Relations Board and the Department of Labor have all established certain benchmarks of appropriate laborer designations including, *inter alia*, the degree of control by the principal over the agent, the ownership of equipment and supplies used in business operations, and the terms and conditions of production. Re-designation of the *employee* to *independent contractor* status is subject to governmental audit and possible stiff fines and penalties if the appropriate categorizations are not correctly utilized (Virjee, 2001). More importantly, with respect to GRI reporting, it is difficult, if not technically impossible, to monitor the working conditions of the independent contractor nor gage the mount and type of energy used in the production process. Child labor violations may be apparent, health and retirement (even if offered by ED in the future) will most likely not be available, and workers' compensation coverage to cover work-related injuries are reserved to the company's employees.
5. The organization of the business as an "S" corporation limits its stakeholders considerably and precludes it from being publicly traded. Pursuant to federal law,[5] there can be no more than 100 shareholders to request "S" status from the U.S. Department of the Treasury. With less shareholders, there are fewer investors to demand favorable financial returns, possible subordinating sustainability concerns. While there are several references to owners and partners, there is a paucity of information regarding the specifics of how many shareholders are involved, their proportionate number of shares held and the value of the shares held.
6. With respect to suppliers, ED should develop a firm policy to refuse to work with business entities which export hazardous scrap materials to developing countries.
7. Assessing wages in light of an employee's living situation and/or requiring a particular ecological mindset as a condition of hire, are not necessarily discriminatory *per se*, but may be inadvertently adversely impacting segments of the workforce by gender and minority status, especially under Title VII of the 1964 Civil Rights Act and the Equal Pay Act of 1963.[6] Traditionally, employers have disproportionately underpaid women based upon their marital status, with the expectation that the male was the primary breadwinner (Reinhold, 2005). The facially neutral policy of requiring like-minded, ecologically-conscious individuals and drawing from a particular radius around the Boulder area without stating its

particular demographics, might generate a disparate impact finding under Title VII in the hiring process.[7]

8. As ED readily exhibits an example of an enterprise successfully developing new business opportunities from climate change, there appears to be a lack of evidence as to the financial risks posed. According to the *Stern Report on the Economics of Climate Change*, without significant lifestyle changes, "the costs of extreme weather alone could reach 0.5-1% of world GNP per annum by the middle of the century" (Stern Report, 2007). The onset of drought-like conditions and the lack of available water could signal higher transportation costs for the company and its suppliers, lower consumer demand and increased insurance premiums. Having already experienced an epic drought in 2002, the consequences are still readily apparent with Lakes Mead and Powell being at less than half capacity and with the doubling of water rates in several cities in and around the Denver area (Smith, 2007).

Symbiotic Engineering, Inc.:

(a) Strengths:

1. Although beyond the scope of its auditing tasks, SE, using the AA1000 (2008) indicia of stakeholder identification and involvement, appropriately emphasizes ED's lack of establishing a definitive stakeholder engagement strategy, but may have further recommended specific strategies to address the following criteria:

   What processes might be used for purposes of stakeholder identification and engagement?

   Have stakeholders been involved in material decision-making and in what manner and to what extent have they participated?

   What methods could an SME like ED utilize for resolving conflicts which involve multiple definitions of what is material or important to the company's growth, progress and operations?

2. The principals of SE possess the appropriate qualifications in the form of professional and academic degrees and history of experience to conduct this audit, however, unless already accomplished, the entity may wish to strive to become a GRI-certified assurance provider in the future.
3. In additional to an in-house review of SE's submitted material, the auditor also provided additional assurance by conducting an on-site review.
4. While both the reporting company and the assurance provider are situate in relatively close proximity (in or around the Denver-Boulder, Colorado area), there is no evidence of any past dealings or business connections between the two entities, ensuring SE as an independent assurance provider.
5. SE has provided ED with a potential marketing edge, surpassing and complementing its pre-existing ecologically-oriented business alliances and practices by emphasizing the "cradle-to-cradle" (C2C) nature of its product offerings.

6. SE correctly notes ED's lack of verifying data regarding pollutants discharged and potential labor abuses committed by its overseas suppliers.
7. SE offers an appealing suggestion to ED to translate its report – and I would extend this recommendation to similarly translate all of its sales materials, surveys, and Web information, into Spanish, especially in light of the growing Hispanic population in the U.S. (Gingerich, 2007). Irrefutably, the Hispanic population is the fastest growing minority in the United States, and most notably in urban centers including Denver.[8]
8. While the U.S. Occupational Safety and Health Administration (OSHA) and its state corollaries have been created to regulate workplace safety, SE appropriately questions the efficacy, quality and necessity of the use of facemasks in the workplace.

(b) Deficits:

1. Although the essential components of those GRI metrics were referenced in measuring the reporting company's organizational profile, vision and strategy, and utilization of technical knowledge, each of these components warrant more thorough examination and discourse.
2. SE could have recommended that ED be "power neutral;" that it adopt a clear policy devoid of even implied threats of retaliation against employees and/or suppliers for commentary and criticism of ED's operations. Ostensibly, SE could have stated that it is more difficult with a small workforce to be truly transparent when the anonymity of the responders is more difficult to ensure.
3. Criticism regarding possible breaches of the Fair Labor Standards Act[9] should be more correctly identified as potential, yet assumedly unintentional, violations of civil rights protections, including Title VII of the 1964 Civil Rights Act and the Equal Pay Act of 1983 as explained *supra*.

X. CONCLUSION

Corporate fiscal irresponsibility and global climate change have precipitated not only the immediate investor's demand for greater transparency and sustainability in business operations, but have served as a catalyst in the development of universally understood and accepted guidelines for benchmark reporting of social, economic and environmental indicators. GRI G3 performance indicators aligned with AA1000 AS (2008) stakeholder identification guidelines provide a reliable platform for a business entity to use to monitor and report the core components of its operations to a growing stakeholder class for evaluation. The addition of a third party assurance auditor and an overall academic critique of both reports assists in the refining of such universal reporting standards as well as offers useful advise and recommendations to the reporting organization with the objective of raising such entity to the highest possible rating of performance and operational management.

ENDNOTES

[1] With respect to one recently conducted survey concerning the inclusion of a "business ethics" course in the standard curriculum, 66.1% of the respondents indicated that it should be required of all business students. The fully documented results of this survey can be found in McCuddy, Michael K. and Pinar, Musa and Gingerich, Elizabeth F.R. 2008. Using Student Feedback In Designing Student-Focused Curricula. *To be published in Journal of Business Education and Management*, Summer, 2008.
Also, in 2001, the Colorado-based Aspen Institute began ranking business schools on how well they integrate social and environmental concerns and accountability into their curricula. Brant, Martha and Ohtake, Miyoko 2006. People, Planet, Profit. *Newsweek*, April 14, p. 64.

[2] See, e.g., the Sarbanes-Oxley Act of 2002, Passed as Pub. L. No. 107-204, 116 Stat. 745, and also known as the "Public Company Accounting Reform and Investor Protection Act of 2002."

[3] Sarbanes-Oxley, *supra*, contains more stringent penalties for individuals who destroy records, commit securities fraud and fail to report fraud. Corporate officers are compelled to reimburse profits generated from corporate wrongdoings committed within the previous 12 months. Additionally, corporations are precluded from extending personal loans to its directors and executives.

[4] An example of a company that has recently earned an A+ rating has been American-based BASF, a maker and distributor of various chemicals which are subsequently integrated into other products which include pesticides and protective coatings. Anonymous. Chemical Week. New York: March 17, 2008, 170:9, p. 6.

[5] 26 U.S.C. §1361. Corporations may elect "S" status if there are no more than 100 shareholders and unanimous election is provided.

[6] *Title VII* of the Act, Pub.L. 88-352, 78 Stat. 241, enacted on July 2, 1964, is specifically codified at 42 U.S.C. §§701 et seq. and the *Equal Pay Act of 1963,* Pub. L. No. 88-38, 77 Stat. 56, (June 10, 1963) at 29 U.S.C. § 206(d).

[7] *Dothard v. Rawlinson*, 433 U.S. 321 (1977).

[8] World News Digest: "2000 Census: Racial, Ethnic Minority Populations Surge," May 10, 2001. *See* http://www.facts.com/2001213270.htm.

[9] *Originally enacted in* June 25, 1938 at 52 Stat. 1060, 29 U.S.C. 8.

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