return of the socially conscious corporation

HOW CAN YOU REAP THE REWARDS OF GOOD CORPORATE CITIZENRY?

BE ONE—AND BROADCAST IT!

BY PAUL M. CLIKEMAN, CPA

The "socially responsible" corporation is making an encore on the global stage. Good corporate citizenry may be a throwback to a tumultuous era three decades ago, but it's on the rise today just as public faith in corporations descends. It's surprising how many leading corporations are now increasing investor loyalty, enhancing brand value, and bolstering their reputations by practicing, documenting, and disclosing their "sustainable development."

A BOTTOM-LINE PHILOSOPHY

Sustainability is a philosophy that weighs the current economic benefits of activities against the effects of those activities on future generations. Activities that consume too many nonrenewable resources, produce too much pollution, or harm people aren't sustainable in the long run.

Companies that practice sustainable development measure their success by the long-term impact of their activities on the economy, the environment, and society. They believe it's in their own best long-term interests to conduct business in an environmentally and socially responsible way. They view sustainable development as important risk management to help them avoid environmental and social disasters. After all, the costs of responsible environmental and safety programs are minor compared to the enormous economic losses of oil spills, chemical leaks, employee injuries, product recalls, and customer boycotts.

When you make your business grow "sustainably," your "triple" bottom line can be measured by environmental, social, and economic performance.

Environmental performance is the effect of processes, products, and services on air, water, land, biodiversity, and human health. Some factors of environmental performance include the amount of energy and raw materials consumed, the type and quantity of emissions, and the impact of products on the environment throughout a product's life cycle. Sustainable development seeks to maximize the efficiency with which energy and raw materials are used while minimizing environmental damage that products and processes cause.

Social performance is the ramification of a company's processes and products on people in communities in which the company operates. It can be gauged, for example, by employee health and safety, compliance with fair hiring and promotion laws, and the safety and performance of a company's products.

Economic performance is a company's total economic impact on the community. It is composed of taxes, wages, purchases from vendors, donations, dividends, and reinvested earnings.

Table 1: benefits of reporting sustainability

Provides a sound basis for dialogue and discussion with stakeholders.
Channels pertinent information to targeted stakeholders (investors, local community members, government officials, etc.) and thus enhances corporate visibility and helps demonstrate transparency.
Helps build reputation, which, over the long term, will contribute to increased brand value, customer loyalty, and market share.
Encourages and facilitates implementation of rigorous management systems to better monitor environmental and social risks.
Assists the company in demonstrating its business values and principles about environmental and social issues.
Helps attract "patient" shareholders who have a long-term horizon, and helps justify lower-risk premiums from investors and creditors.

Source: World Business Council for Sustainable Development (www.wbcsd.ch)

REPORTING SUSTAINABILITY

Hundreds of European, Asian, and American companies now publish periodic reports describing their sustainable development activities. A natural extension of financial reporting, sustainability reports expand the scope of corporate reporting by describing the company's environmental, social, and economic performance.

Much of the demand for sustainability reporting is coming from the investment community. Some investors—such as socially screened mutual funds—invest only in companies whose activities meet certain environmental and social criteria. Socially responsible investors use sustainability reports to evaluate companies' operating procedures. Other investors believe sustainable development leads to superior long-term financial performance. In fact, companies in the Dow Jones Sustainability Index (DJSI) have had significantly better stock price performance than firms in conventional stock indexes such as the Dow Jones Global Index. The DJSI consists of the top 10% of companies in 68 industry groups worldwide rated by their sustainability performance. It was started in 1997 to satisfy investor demand for information about sustainability and is now a leading tool for evaluating the sustainability performance of global companies.

Table 2: performance indicators

PERFORMANCE ASPECT	PERFORMANCE INDICATORS
ENVIRONMENTAL PERFORMANCE	
Energy	◆ Total direct energy use, segmented by primary source.
Water	◆ Total water use.
Emissions	◆ Quantity of greenhouse gas emissions, ◆ Amount of waste by type and destination, and ◆ Amount and type of significant discharges to water.
Products and Services	◆ Percentage of a product's weight that is recyclable at the end of its useful life and the percentage that is actually recycled.
Compliance	◆ Magnitude and nature of penalties for violations of environmental regulations.
SOCIAL PERFORMANCE	
Labor Practices	◆ Net jobs created across regions of countries, ◆ Frequency rates of employee injuries and number of work-related fatalities, ◆ Average hours of training per year per employee, and ◆ Male/female ratio of senior management and board of directors.
Human Rights	◆ Description of policies and monitoring mechanisms of child labor and forced labor.
Society	◆ Description of policies and monitoring mechanisms of bribery/corruption and political lobbying/contributions, and ◆ Amounts contributed to political parties, candidates, and lobbying organizations.
Product Responsibility	◆ Description of policies and monitoring mechanisms for product labeling and customer privacy, and ◆ Results of customer satisfaction surveys.
ECONOMIC PERFORMANCE	
Suppliers	◆ Cost of all goods, materials, and services purchased.
Employees	◆ Total wages and benefits by country or region.
Providers of Capital	◆ Interest and dividends paid, and ◆ Increase/decrease in retained earnings at end of period.
Public Sector	◆ Taxes of all types by country, and ◆ Charitable donations.

Source: Global Reporting Initiative (www.globalreporting.org)

But beyond the financial bottom line, practicing sustained development—and reporting it publicly—brings a plethora of other benefits. Attracting "patient" shareholders and enhancing the firm's reputation and brand value are two of the most tangible benefits, according to a monograph by the World Business Council for Sustainable Development called *Sustainable Development Reporting: Striking the Balance*. These and other benefits of sustainability reporting are shown in Table 1.

"Patient," socially responsible investors have longer-term investment horizons than typical investors—that is, they are less likely to sell a company's stock the first time the company misses a quarterly earnings target. Attracting such investors may help reduce a company's stock price volatility. At the same time, corporate reputation is a significant determinant of firm value. "A company's social, ethical, and environmental working practices can make or break a brand name and affect share prices," noted the 1999 "Turnbull Report" ("Internal Control: Guidance for Directors on the Combined Code") from the Institute of Chartered Accountants of England & Wales. Furthermore, companies that communicate their social and environmental performance enhance their reputations, which leads to greater financial value, according to advisors who help companies report sustainability activities.

Table 3: performance highlights from the ford motor company's 2000 *corporate citizenship report*

ENVIRONMENTAL

VEHICLES (Cars and light trucks)	2000 Model-Year Fuel Economy	2000 Model-Year Carbon Dioxide Emissions	Better/(Worse) Carbon Dioxide Emissions than 1999
U.S. Average[1]	23.9 mpg (9.8 L/100m)	230 g/km	1.3%
Europe Average	33.1 mpg (7.0 L/100m)	171 g/km	1.7%

WORLDWIDE FACILITIES	2000 Total	2000 Per Vehicle	Better/(Worse) than 1999 Per Vehicle
Energy Use[2] (*BTUs*)	109.6 trillion	16.7 million	(1.0%)
Water Use[3] (*gallons*)	12.2 billion	1,867	0.8%
Carbon Dioxide Emissions (*tons*)	13.7 million	2.048	(1.0%)

[1] Includes Mazda, Jaguar, Aston Martin, and Volvo vehicles sold in the United States in addition to Ford, Mercury, and Lincoln, consistent with U.S. reporting requirements.

[2] Includes Visteon. Excludes Volvo, Jaguar, and Aston Martin.

[3] Excludes Visteon, Volvo, Jaguar, and Aston Martin.

ECONOMIC

	2000	Over/(Under) Compared to 1999
Shareholder Return	-16%	(10 pct. pts.)
Income* (billions)	$5.4	(17%)
R&D Investment (billions)	$6.8	13%
Investment in U.S. Employee Training and Development (millions)	$700	5%
Purchases from U.S.-Based Minority Suppliers (billions)	$3.4	3%
Charitable Contributions (millions)	$119.8	41%
Employee Satisfaction Index	64%	5 pct. pts.

* From continuing operations

SOCIAL

	2000	Better/(Worse) than 1999
"Lost" Days Per 100 Employees Due to Work-Related Injuries	3.84	15%

So reporting sustainability is an opportunity for companies to communicate—perhaps even broadcast—their good citizenry.

A REPORTING MODEL

But one problem hampering the growth of reporting sustainability has been the lack of generally accepted reporting standards. Without guidance and standards to make reports comparable and ensure the reliability of the information, skeptics may dismiss them as public relations puffery. The Global Reporting Initiative (GRI) is the leading organization working to establish standards for sustainability reporting. GRI was founded in 1997 by the Coalition for Environmentally Responsible Economies and the United Nations Environment Programme. Its mission is setting standards that organizations can use to report their sustainable development performance on a consistent and comparable basis. GRI's steering committee includes representatives from a diverse group of corporations, investor organizations, and environmental advocacy groups such as General Motors, the Investor Responsibility Research Center, and the Green Reporting Forum.

In March 1999, GRI issued an exposure draft of suggested reporting guidelines and in 2000 published its first *Sustainability Reporting Guidelines* (Guidelines). In August 2002, it issued an amended set of Guidelines based on feedback from more than 20 companies that implemented the original Guidelines and comments from report users.

Overall, GRI sought to develop quantitative performance indicators for measuring the success of an organization's sustainable development activities. Its Guidelines are based on 11 principles that include transparency, completeness, comparability, clarity, timeliness, and auditability. The organization recommends that entities disclose both qualitative descriptions of their sustainable development activities and quantitative measures of their performance. The Guidelines recommend that sustainability reports include five sections:

1. **Vision and Strategy—**A description of the reporting organization's strategy for sustainability, including a statement from its CEO.
2. **Profile—**An overview of the reporting organization's structure and operations and scope of the report.
3. **Governance Structure and Management Systems—** An overview of the governance structure, overarching policies, and management systems to implement the company's vision for sustainable development and to manage its performance.
4. **GRI Content Index—**A table indicating where information is located in the entity's report.
5. **Performance Indicators—**Quantitative measures of the reporting organization's economic, environmental, and social performance, which are shown in Table 2.

REAL-WORLD REPORTS

More than 600 corporations issued sustainability reports in 2002, according to CorporateRegister.com, a website devoted to social reporting. Their list includes U.S. companies such as Conoco, Dow Chemical, Ford Motor Co., Johnson & Johnson, and Procter & Gamble. European and Asian companies issuing sustainability reports include British Airways, Canon, Siemens, Nissan, and Shell Petroleum.

Johnson & Johnson's 2002 *Sustainability Report*, which follows GRI's reporting Guidelines, emphasizes the company's environmental performance. Bar charts show the company's carbon dioxide emissions, water usage, waste disposal, hazardous waste generation, and toxic chemical releases for 1992 through 2002. The report also discloses the number of accidental releases and environmental noncompliance events in recent years. The company's actual performance is compared to company goals for many of the environmental performance measures so readers can see areas in which Johnson & Johnson is trying to improve and how they're making progress. In keeping with the company's mission as a health products provider, the report discloses statistics about employee smoking, high blood pressure, high cholesterol, and inactivity rates compared to company goals and general population rates.

Ford Motor Company was one of the first companies to adopt GRI's Guidelines. Ford's *2000 Corporate Citizenship Report* is a good example of triple bottom-line reporting. The report's highlights show key statistics documenting the company's environmental, economic, and social performance, as shown in Table 3. The section on environmental performance contains measures of Ford's energy consumption, water use, recycled materials use, and production waste, as well as the number of environmental violations at U.S. facilities. The economic performance section provides measures of customer satisfaction, total wages and benefits, training expenditures, employee satisfaction, taxes paid, and charitable contributions. The social performance section discloses vehicle safety data, employee injury statistics, employee diversity, and information about the number and amount of fines Ford received that year from the U.S. Department of Labor's Occupational Safety & Health Administration (OSHA).

AHEAD OF TIME

Today, when the public's faith in corporations seems to be at an all-time low, documenting and disclosing your company's environmental performance, social responsibility, and economic contributions to society is one way to maintain or enhance your company's good reputation. It will also attract investors because many of them are interested in the kind of expanded reporting that sustainability reports provide.

My recommendation? Be proactive rather than reactive in discussing your company's triple bottom line to the world beyond markets. You may find you're ahead of your time. ■

Paul M. Clikeman, CPA, Ph.D., is an associate professor of accounting at the Robins School of Business at the University of Richmond. You can reach Paul at (804) 287-6575 or pclikema@richmond.edu.