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Should All Companies Report on Their Corporate Responsibility?

When senior management, securities analysts, and investors speak about a company's "numbers," it's almost a sure thing they are referring to current profits. During the stock market bubble, attention was given to revenue levels, perhaps to justify using a lower multiple of something to arrive at a target price a stock could reach. Forgotten in the scramble for riches was any consideration of whether the high-flying companies could be sustainable, whether they were successful in meeting the needs of all of their stakeholders, or if they operated as responsible corporate citizens.

In spite of the general inattention, corporate responsibility has long been a subject of interest to some investors. The latest report (2003) from the Social Investment Forum, the industry group of socially responsible investment (SRI), states that more than one in every nine dollars under professional investment management is involved with SRI. This represents use of one or more SRI strategies: screening, shareholder advocacy, and community investing.

As an indication of how mainstream the attention to corporate responsibility is becoming, the Business Roundtable, an association of CEOs of leading corporations, announced in September 2005 the launch of a sustainable growth initiative called "S.E.E. Change." This program challenges companies from every sector of the economy to improve Society, the Environment, and the Economy. The Roundtable encourages companies to accept the S.E.E. Change challenge and commit to business strategies that combine traditional corporate goals of higher profit and lower cost with environmental stewardship and social improvement.

In the areas of most interest to management accountants and financial managers, the availability of relevant information about corporate responsibility is thought to be essential to success. Corporate responsibility (CR) is becoming recognized as the principal indicator of nonfinancial performance as well as a factor that is associated with superior financial results to shareowners, and it is no longer viewed as a public relations exercise designed to improve image.

Public reporting on available performance metrics and strategic programs designed to enhance corporate responsibility, such as S.E.E. Change, is necessary to drive programs within companies so organizations recognize the value that CR initiatives create. The Roundtable encourages use of traditional metrics that track the "eco-efficiency" of natural resource use, but it also urges the use of "value-added" metrics to assess the business impacts of investments in projects designed to increase sustainability.

Fortunately, trends toward greater public transparency of corporate results in social and environmental as well as economic terms are accelerating. Yet the public visibility and importance of CR information for internal decision making poses challenges for information systems not always designed to accumulate and report accurately much more than financial position and the results of operations. And excessive focus on Sarbanes-Oxley compliance hasn't helped.

KPMG International has surveyed corporate responsibility reporting on a global basis five times since 1993. The 2005 version, *KPMG International Survey of Corporate Responsibility Reporting (ISCRR)*, involves analysis of reports from two groups: the largest 250 members of the Global *Fortune* 500 (G250) and the top 100 (N100) companies in 16 countries. The reports were either separate corporate responsibility reports or material published as a part of a corporate annual report.

The ISCRR shows that the number of companies reporting corporate responsibility information has increased for both G250 and N100 sectors from 2002, the date of the last KPMG survey. In 2005, 52% of G250 and 33% of N100 published separate reports on CR compared to 45% and 23%, respectively, in 2002. If annual reports with CR information are added, the 2005 percentages increase to 64% and 41%. Although considerably larger percentages of non-U.S. companies issue CR reports and publish CR information, the U.S. 2005 percentages amount to a respectable 35% for the G250 and 32% for the N100.

In terms of industry, the ISCRR states that companies with high environmental impact, such as oil and gas, automotive, and utilities, are represented most. Since 2002, the content of CR reports has also broadened from a pattern of containing only environmental data to typically encompassing all aspects of sustainability: social, environmental, and economic.

In qualitative terms, the survey maintains that CR issues are being viewed less as isolated functions and more as integrated into the core values of the entity and its business strategies. Consequently, public reporting of CR data is migrating from legalistic recitation of just quantitative information to meaningful disclosures of information that's relevant to the major risks and rewards faced by the company. This trend represents the fact that consideration of ethical, social, and environmental issues in decision making is becoming recognized as a marker of good management practice.

Use of balanced scorecard accounting, also known as the triple (economic, social, environmental) bottom-line approach, is increasing. Some denote the triple bottom line as people, profits, and planet. This approach helps promote the attitude that profit is only one of the outcomes of the organization's activities, not its sole focus. Paul L. Clikeman notes the benefits of being proactive rather than reactive toward the triple bottom line in his April 2004 *Strategic Finance* article, "Return of the Socially Conscious Corporation."

As an indicator of why companies are committed to CR, the ISCRR shows that economic consideration is considered to be the most important driver of CR reporting, with 74% of companies choosing this motivator. Economics was either directly linked to increased shareowner value or indirectly linked through increased business opportunities, innovation, reputation, and reduced risk. Ethical considerations as well as innovation and learning were chosen by 53% of companies. Companies do believe that doing good enables them to do well.

Forty percent of companies utilize the Global Reporting Initiative guidelines to help determine the content and structure of their CR report. Japanese and French companies have to follow national standards and regulations. More than 39% of CR reports refer to structured discussions with stakeholders. Stakeholder dialogue has long been considered an important CR strategy, especially outside North America.

Almost two-thirds of CR reports contain information on corporate governance and a code of conduct or ethics. Reporting on supplier issues is now common, as companies are increasingly being asked to extend their responsibilities down the supply chain. Climate change is a subject discussed in about 85% of reports. Social issues discussed in the reports include core labor standards, working conditions, community involvement, philanthropy, greenhouse gases, and supply-chain issues.

Independent assurance of CR information is present in about one-third of CR reports. Major public accounting firms were the major providers. Yet according to the ISCRR, the subject of assurance requires further study in order to develop focused and rigorous processes that are meaningful and useful. In the United States, only one CR report contained independent assurance.

In today's world, companies should recognize their responsibilities to be accountable to society. The infrastructure provided by society enables companies to operate effectively and efficiently. Customers, investors, lawmakers, and citizens in general are demanding responsible ethical, social, and environmental practices from companies with which they have a relationship. Is your company responding? Are you preparing to provide the necessary decision support information so that it can respond in the future? ■

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