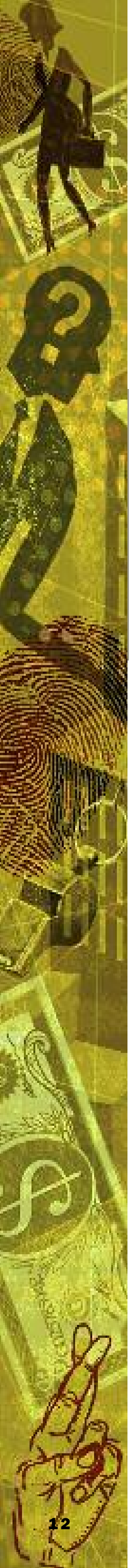

Curtis C. Verschoor, CMA, Editor

Responsibility Reporting Is Getting More Attention

Surveys highlight the increased prevalence and value of sustainability and corporate responsibility reporting for public companies, but the lack of standardization as well as notable failures show that more needs to be done before these types of reports can truly be reliable.

Following the lead of European-based companies, companies in the United States and around the world increasingly report nonfinancial information addressing their impact on the environment and key stakeholders such as customers, suppliers, employees, the community, and the general public. The titles of these reports often include phrases such as "corporate responsibility" (CR), "sustainability," "environmental, social, and governance" (ESG), or "triple bottom line" (which includes economic, social, and environmental issues).

According to the *KPMG International Survey of Corporate Responsibility Reporting 2011*, corporate responsibility reporting has become a de facto standard for business, and it enhances the financial value of companies that do it. The KPMG survey analyzed the reports of more than 3,400 companies from 34 countries, including the 250 largest companies in the world (G250). Ninety-five percent of the G250 now report on their corporate responsibility activities, including almost 60% of China's largest companies that already report using corporate responsibility metrics. Of the G250 companies that don't report on corporate responsibility, two-thirds are based in the United States.

KPMG says, "With almost half of the largest companies already demonstrating financial gains from their CR initiatives, and with the increasing importance of innovation and learning as key drivers for reporting, it is clear that CR has moved from being a moral imperative to a critical business issue." Topping the list of business drivers motivating companies to report on their CR activities is reputational or brand considerations (cited by 67% of the G250), with ethical considerations also high on the list (58%).

Large, publicly held corporations have taken the lead in corporate responsibility reporting—with 70% doing so—but KPMG notes that other companies can benefit as well. The report states, "While family-owned and private equity-owned companies may face a different level of scrutiny than publicly traded companies, this does not exempt them from accounting for their positive and negative impacts on society, particularly in the modern information age."

The KPMG survey notes that 80% of G250 companies utilize the general guidelines for sustainability reporting published by the Global Reporting Initiative (GRI). The GRI guidelines suggest the areas of environmental, social, and governance topics that should be disclosed, but there's considerable variation in how much information companies report and how they report it. Efforts are under way to improve reporting. The GRI is currently considering an updated fourth generation (G4) guidance document expected to be released sometime in 2013, and a group of business professionals has formed the U.S.-based Social Accountability Standards Board (SASB) with the aim "to develop reporting standards and benchmarks for environmental, social, and governance issues."

Thirty-five percent of G250 companies currently don't include information on corporate governance or control mechanisms in their CR reports. This has led one-third of the G250 companies to restate previously reported information. The practice of providing independent assurance is also quite divergent, with only 45% of all G250 companies—and only 13% of U.S. companies—engaging an external reviewer. Of those that undertake assurance, more than 70% engage major accounting organizations.

The BSR/GlobeScan *State of Responsible Business Poll 2012* reports that "companies can build trust by being increasingly transparent about business practices and by measuring and demonstrating positive social and environmental impacts." BSR, a U.S.-based nongovernmental organization (NGO) whose mission is to build a just and sustainable world, said respondents to the poll remained pessimistic about the amount of public trust in business. A total of 556 BSR members completed the survey: 51% from North America and 25% from Europe.

Respondents believe that the two areas in which business has made the most significant progress over the last 20 years are health and safety issues and sustainability reporting. Areas that have seen the least progress are sustainable consumption, particularly the use of water, and public policy. Those topics also are viewed as the greatest challenges for the future. Both the BSR and KPMG surveys suggest that the challenge of integrating sustainability into the core of business is a significant factor in making progress on sustainability issues.

Another indication of the popular interest surrounding sustainability in the business world is *Newsweek*'s annual calculation of companies' "green" performance. The fourth annual *Newsweek Green Rankings*® report utilizes the services of environmental research providers Trucost and Sustainanalytics to assess the performance of publicly traded U.S. and global corporations. Both the U.S. and global lists consist of a ranking by the "green score" of the largest 500 companies by revenue, market capitalization, and number of employees.

The green score is weighted 45% for environmental impact, 45% for environmental management, and 10% for environmental disclosure. The environmental impact is a comprehensive, quantitative, and standardized measure of approximately 700 metrics, including emissions of nine greenhouse gases, water use, solid-waste disposal, and emissions that contribute to acid rain and fog. Trucost uses company-reported and calculated direct and supply-chain quantitative data to determine an environmental damage cost based on a standardized cost per unit of input or output. This amount is normalized for company size.

The environmental management score is an assessment of how a company manages its environmental performance through policies, programs, targets, certifications, and the like. The composition of indicators and weightings used to evaluate a company varies by industry. All profiles are peer reviewed by Sustainanalytics internally and sent back to companies for verification. Half of the disclosure score is determined by each research provider. Trucost reflects the proportion of environmental impacts a company is disclosing out of those that are relevant. Sustainanalytics assesses the breadth and quality of environmental reporting as determined by the level of reported involvement in key transparency initiatives.

Analyzing the rankings of U.S. companies revealed some interesting industry patterns. The greenest industries in the U.S. were information technology and services, where 11 of 29 companies in the 500 (37.9%) were ranked in the top 10%; technology equipment, where 13 of 37 (35.1%) were ranked in the top 10%; and telecommunications, where two of nine (22.2%) were ranked in the top 10%. Industries that had the largest proportion of companies ranked in the bottom 10% were utilities, with 11 of 27 (40.7%), and materials, with 10 of 34 (29.4%). The other industries had companies dispersed throughout the rankings.

For guidance in applying the *IMA Statement of Ethical Professional Practice* to your ethical dilemma, contact the IMA Ethics Helpline at (800) 245-1383 in the U.S. or Canada. In other countries, dial the AT&T USA Direct Access Number from www.usa.att.com/traveler/index.jsp, then the above number.

Despite all this attention, though, recent events show that there is room for improvement in corporate responsibility reporting. One example is the chain of events involving Barclays PLC, Britain's second-largest bank and a longtime advocate of good corporate citizenship. Its *2011 Annual Report* notes that "Citizenship is one of Barclays four execution priorities and is integral to its business." The report also quotes former CEO Bob Diamond, who said, "Banks need to become better citizens. This is not about philanthropy—it's about delivering real commercial benefits in a way that also creates value for society."

But shortly after publishing its near-100-page *Citizenship Report 2011* in April 2012, Barclays was fined £290 million ($451.4 million), the largest penalty ever assessed by U.S. and U.K. financial regulators. Barclays admitted submitting false information about its interbank borrowing rates that masked the bank's true financial health and increased trading profits (see the August 2012 column, "A Disturbing 30 Days"), and Diamond was forced to resign.

In a story titled "Has Barclays brought corporate responsibility reporting into disrepute?" the U.K.-based *Guardian Sustainable Business Blog* described "the vast gap between the company's behavior and its so-called corporate sustainability aims." The story noted that this event "not only puts the value of corporate sustainability reporting in general into question, but also begs the question of whether independent social auditing is ever going to do more than just gloss over the surface of a company's affairs." Ernst & Young, who provided the assurance on Barclays's responsibility reporting, was also called to task by the blog: "Ernst & Young (E&Y) needs to recognize that by putting their official stamp on corporate responsibility reports, they give the very strong impression to stakeholders that all is well."

A three-page assurance report by E&Y says that the firm planned and performed its engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 and also standard AA1000AS issued by the Institute of Social and Ethical Accountability.

According to paragraph 49j of ISAE 3000, the practitioner's conclusion "should be expressed in the negative form." In other words, the practitioner should attest that nothing came to its attention that caused it to believe that the company's assertion(s), based on stated criteria, is stated unfairly. Yet there's no such language in the E&Y report on Barclays. Rather, E&Y's stated conclusions are positive and grouped into four categories: Inclusivity, Materiality, Responsiveness, and Completeness and Accuracy. There's no language to indicate that E&Y expresses any exception to any of the contents of the *Citizenship Report.*

Adding to the ethical challenges at Barclays is the announcement on November 1, 2012, that it's facing a double-barreled assault from U.S. authorities. The bank disclosed that it was facing a U.S. anticorruption investigation and that the U.S. Federal Energy Regulatory Commission is seeking a record $470 million in penalties for the bank's alleged manipulation of U.S. electricity markets.

While responsibility reporting is becoming more widespread among companies and drawing increased interest from the media, the events at Barclays suggest that more development and refinement are needed before responsibility reporting—and appropriate independent assurance—can provide the ethically related information that stakeholders require. Assurance providers should adhere to professional standards to avoid unwarranted conclusions by readers. **SF**

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