Corporate Responsibility Reports Take Root

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In 2004, nearly 1,800 transnational corporations (TNCs) or their affiliates filed reports on issues of corporate responsibility, up from virtually none in the early 1990s.[1] With some 1,600 reports already filed for 2005—estimated at about 85–90 percent of the likely total—this trend is on track to grow.[2] (See Figure 1.) These responsibility reports, sometimes referred to as nonfinancial reports, cover everything from labor standards and impacts on local communities to toxic releases and greenhouse gas emissions.

Thus far, most responsibility reports are filed by European corporations. Of those produced between 2001 and 2005, 54 percent came from Europe, 25 percent from Asia and Australia, 17 percent from North America, 2 percent from South America, and 2 percent from Africa and the Middle East.[3] Companies in developing economies, even major ones such as India and China, are producing few such reports. In 2004, only 5 Indian and 11 Chinese companies submitted them.[4]

Many of the largest TNCs now file annual nonfinancial reports. According to a 2005 KPMG survey, 52 percent of the top 250 companies of the Fortune 500 filed such a report in 2005, up from 45 percent in 2002.[5] If responsibility sections in financial reports are included, the total increases to 64 percent.[6]

Of companies listed on the FTSE 100, 83 filed significant reports in 2005.[7] Only one of the other 17 companies did not file at least a partial report on some of its own activities or those of its subsidiaries.[8] Of the S&P 100, 39 issued responsibility reports in 2004.[9] And a 2005 survey of 160 annual reports of companies selected randomly from the S&P 500 and the S&P/TSX Composite Index found that 36 percent of these reports included sections on issues of responsibility.[10]

As encouraging as this sounds, if roughly 1,800 TNCs or their affiliates are filing responsibility reports, that still leaves 97.5 percent of the nearly 70,000 TNCs worldwide without such documents.[11] Moreover, many of the reports filed are below par—lacking in details, transparency, or inclusion of long-term goals.[12] "Most companies fail to give any real insight into what they are reporting on and why they are doing so," as noted in *Risk & Opportunity*, the 2004 Survey of Corporate Sustainability Reporting.[13] In 2003, less than 40 percent of the reports received any sort of third-party verification.[14]

Still, there are a few leaders in this field. CorporateRegister.com categorized about a quarter of the 1,783 documents filed in 2004 as full sustainability reports—ones that highlighted companies' efforts on environmental, social, economic, and community issues.[15]

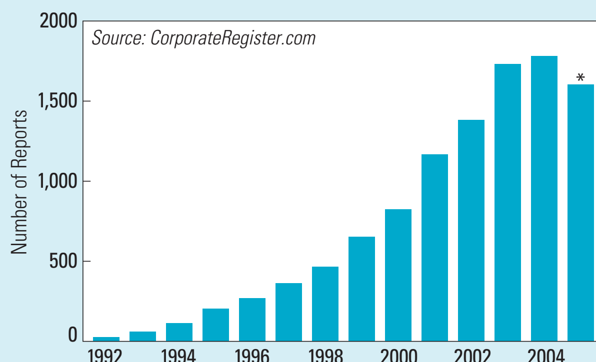
Corporate responsibility reporting can serve as a central tool in helping companies reveal environmental and social weaknesses and provide strategies to remedy them. As the Chairman of Royal Dutch Shell, Jeroen van der Veer, explains "we have seen how, if done honestly, reporting forces companies to publicly take stock of their environmental and social performance, to decide improvement priorities, and deliver through clear targets."[16] By reporting, corporations admittedly expose their operations to more public scrutiny, yet they also increase trust among stakeholders—as long as they are actually working toward stated goals and not just making empty, unverifiable claims.

Some companies are using these reports not only to declare immediate impacts but also to state long-term goals and their yearly progress toward achieving them. For example, in 1998 BP announced the goal of cutting its greenhouse gas emissions to 10 percent below 1990 levels by 2010 and started publishing information on its annual releases.[17] By 2001 BP had already reached this goal—and in the process the company saved $650 million.[18]

Starbucks, too, has used its annual reports to declare a commitment to reduce its environmental and social impact through the creation of a sustainable coffee supply. In 2004, 19.7 million kilograms of its coffee (14.5 percent) were produced under its rigorous Coffee and Farmer Equity (C.A.F.E.) standards, up from 6 million kilograms the year before.[19] These standards, verified by an external auditor, award points for 28 key sustainability indicators, such

as the amount of water, energy, and pesticides used and how equitably the profits are distributed among workers.[20] Starbucks' goal is to increase the share of C.A.F.E. standard coffee to 60 percent by 2007.[21]

Figure 1. Corporate Social and Environmental Reports, 1992–2005



* Data still being collected. This number represents 85–90 percent of the expected total.

Toyota Motor Corporation may be one of the leading companies in using reports to demonstrate both successful improvements and long-term commitment. For example, the company's 2005 report details reductions in discharges of waste, carbon dioxide, and toxic chemicals, along with increases in average fuel efficiency and sales of hybrid cars.[22] In addition, the report makes public the Fourth Toyota Environmental Action Plan for the period 2006 to 2010.[23] This comprehensive plan lists goals for a range of issues—from energy and climate change to waste, recycling, and broader engagement with society, such as helping to secure a broader public commitment to a "recycling-based society."[24]

One challenge with nonfinancial reporting is standardization. Currently no standard format has been established, so companies are often burdened by competing information demands from dozens of nongovernmental organizations. One leading guideline, the Global Reporting Initiative (GRI), has been adopted at least in name from more than 650 corporations (though some critics suggest the number of corporations that have truly incorporated GRI standards into their reports is closer to 300).[25] Established in 1997, the GRI has been regularly evolving, with new standards released in 2002 and in 2006.[26] Improved guidelines that incorporate feedback from hundreds of stakeholders will be released in mid- to late-2006.[27] The new version plans to include clearer, more comparable indicators and added instructions on how to prepare responsibility reports and better engage stakeholders.[28]

While growth in reporting continues, the pace is starting to slow.[29] One way to accelerate the growth will be to mandate corporate responsibility reporting. Already several countries have some reporting requirements. Denmark, with its Green Accounting Law in 1995, was the first in Europe to require environmental reporting for companies that have significant impact on the environment.[30] Similar legislation has been enacted in the Netherlands, Norway, and Sweden.[31]

Yet few countries have created comprehensive environmental and social reporting laws for all publicly traded companies listed on their national stock exchanges. In 2001, France became the first when it passed the Nouvelles Régulations Économiques.[32] Among other requirements, this obligates companies to report "on how the company takes into account the social and environmental consequences of its activities."[33]

The United Kingdom enacted similar legislation in March 2005.[34] This law required 1,300 companies to disclose environmental and social issues "as necessary."[35] But it was terminated eight months later by the Chancellor of the Exchequer, who argued that it would be too burdensome for companies to implement.[36] This will almost certainly slow adoption of nonfinancial reporting in the United Kingdom.

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