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Closing the Credibility Gap: The Challenges of Corporate Responsibility Reporting

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Transparency is the best way to generate trust

Last October, the Global Reporting Initiative (GRI) launched G3, the third generation of GRI's sustainability reporting guidelines. The attendance list at the conference was impressive (Al Gore gave the final keynote speech), and some of the world's largest companies and nongovernmental organizations (NGOs) were represented. Everything pointed to what many people already knew: Corporate responsibility reporting has become *de rigueur.*[1]

Indeed, thousands of organizations are investing significant time and effort in what remains (at least in most parts of the world) a voluntary effort. Even in countries such as France and South Africa, which mandate some level of disclosure, companies typically go beyond the minimal requirements. Long-standing holdouts like General Electric are now reporting their environmental, social, and governance (ESG) performance in addition to their economic results.

The steady increase in corporate responsibility reporting among prominent global companies is a clear indicator that business leaders consider reporting critical to their business strategy. A 2006 survey on corporate reporting concluded, "Light bulbs are switching on in CEO brains . . . signal[ing] the start of the coming race to demonstrate that sustainable strategies, performance and reporting can deliver—and are delivering—value and competitive benefits."[2]

The Reporting Evolution

G3 Emerges as the Standard

In the 1990s, a company that wanted to issue a sustainability/responsibility report could choose from among more than 30 different reporting frameworks. Today, however, the GRI's G3 Guidelines have become the de facto international reporting standard.

G3 urges, among other things, greater transparency, prioritization of issues, and stakeholder input. It also has established "application levels"

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and requires all reporting organizations to declare the degree to which they have applied the G3 Guidelines (designated C through A). This will discourage companies from paying mere lip service to the standard by claiming that their reports are "based on" or "informed by" the GRI Guidelines.

While the emergence of G3 has largely settled the question of what standard to use, the field is by no means mature. Likewise, while corporate responsibility reporting has become commonplace among industry leaders, it is still the exception rather than the norm in the larger business sphere.

Who Reports

Of the more than 50,000 multinational corporations, fewer than 1 percent use the GRI framework in some manner.[3] That most reporters are large companies reflects the higher public expectations to which such companies are subject and the considerable environmental and social impacts their activities create.

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Of the world's largest companies (the "Global 250"), all those in the chemicals, forestry, and pharmaceuticals sectors issue corporate responsibility reports. Even among large organizations, however, reporting varies dramatically by industry. Among the top 100 corporations in 19 countries, approximately half of those in the utility, oil and gas, chemicals, mining, and forestry-products sectors produce corporate responsibility reports. By contrast, only 22 percent of companies in other sectors (such as trade and retail) do so.[4]

The Trend Toward Greater Transparency and More Quantitative Reporting

As more companies become sensitive to potential charges of "greenwash" (the once-prevalent practice of glossing over critical environmental issues), we have seen a trend toward greater transparency in reporting.

While reports have become more transparent, however, they have also become longer—making their content less manageable from the reader's perspective. Fortunately, many companies now try to avoid overwhelming the reader by providing hard-copy executive summaries supported by comprehensive metrics on their company Web sites. This approach promotes better organization and easier access to data.

A number of software applications have come to market that facilitate data collection with a view toward GRI-based reporting. These applications should enable companies to provide better quantitative evidence of performance and progress.

Some programs allow for easy posting of data to the Web. With this software, companies that now update their quantitative data annually will be able to do so more frequently. Accordingly, we expect more companies to begin providing real-time updates through their Web sites, and with greater detail that ranges from the consolidated or corporate level down to the facility level.

Many report-ranking organizations encourage the use of quantitative metrics and specific goals rather than qualitative descriptions. Thus, companies that offer qualitative descriptions of their performance should expect to provide more supporting data.

As leading reporters move the bar ever higher, and as more players enter the field, the pressure to report—and to report more fully—will only grow.

Why Organizations Report: Some Get It, Others Don't

A growing number of companies understand the competitive advantage to be gained by high-quality corporate responsibility reporting. These benefits include improved management of ESG impacts and overall risk, enhancement of company reputation, and a greater ability to attract and retain both customers and talent.

Other companies—and we'll wager this is the vast majority of reporters today—take a reactive approach to the reporting trends we described above.

Many companies initiate reporting in order to avoid being perceived as laggards in their sector. Others undertake reporting as a public-relations exercise or because their corporate customers have begun peppering them with questions about ESG performance. We think these defensive approaches[5] are shortsighted and can actually do more harm than good.

The problem with a defensive approach is that the perceived need to report is often not linked to core business strategies. Because the report is essentially a means of communicating with stakeholders, reporting is often relegated to the corporate communications, public relations, or (in some cases) marketing department.

Without direction from the top, managers in these departments often fail to grasp the relevant strategic issues that high-quality reporting can address. At worst, they may be unwilling or unable (given their position in the corporate hierarchy) to engage in frank discussion of impacts and challenges.

Top-Quality Reporting Requires a Strategic Approach

Corporate responsibility reporting should be intimately linked to both the business strategy of the company and its internal system for measuring ESG performance. More and more, such performance measurement systems are becoming critical to running a competitive enterprise.

While these links may seem obvious, few companies actually make this cognitive leap. One reason may be lack of understanding (and hence support) from top management. Executive involvement and direction are essential to ensuring that the company forges the key link between its reporting effort and its core business strategy.

Dual Functions

A strategic corporate responsibility reporting process should serve a dual role: It should communicate externally with the company's stakeholders while also informing the company's internal management processes.

To understand these aspects more clearly, consider as an analogy the management and financial accounting systems that every company uses. Management accounting is all about the metrics employed internally to ensure that the company is on track to achieve its business objectives. Metrics such as the widget rejection rate may never be externally reported, but they are critical in determining management's ability to assess performance.

On the other hand, financial accounting is all about meeting regulatory reporting requirements and shareholder needs.

An ESG Metric System

Just as management metrics are a crucial element in tracking a company's performance rela-

Key Elements of a Successful Reporting Strategy

- Top-management support and direction for strategic reporting that ties ESG performance to business strategy
- Stakeholder input
- Identification and prioritization of issues based on stakeholder concerns and internal analysis
- Establishment of key ESG objectives and targets linked to specific ESG metrics
- A robust system for collecting, analyzing, and tracking ESG metrics
- Assurance/verification of key indicators

tive to business objectives, so too is a robust ESG metric system crucial for measuring performance in the areas of environmental, social, and governance performance.

The development of an ESG metric system could be the subject of an entire series of articles. For purposes of this discussion, we simply note the following: The essential elements of such a system should include not only the usual suspects (e.g., regulatory metrics, energy use, waste, and emissions), but also those indicators that are strategically significant to the business.[6]

Companies would go a long way toward reporting effectively if they thought of reporting as a management tool rather than a communications vehicle.

While an ESG metric system can be used to gather data for external reporting, it can also tell management where the company stands vis-à-vis its business objectives. And while the latter information may never be disclosed externally, in many respects it is the most critical.

Don't Just Report—Manage

Companies would go a long way toward reporting effectively if they thought of reporting as a management tool rather than a communications vehicle. Whether and how a company reports should be less about what competitors are doing and more about how information gathered through the reporting process helps the company achieve its strategic business objectives—which should include well-defined strategic ESG objectives.

In far too many cases, the reporting company has few strategic, quantitative ESG objectives in place. A strategically managed reporting process can help the company identify and prioritize issues and determine appropriate goals and targets, supported by metrics that will enable it to track and improve performance.

Strategic Positioning Through Carefully Crafted Communications

A growing number of companies, some of them leaders in their industries, are successfully making the link between strategic business objectives and corporate responsibility reporting. Consider GE's Ecomagination campaign and the company's comprehensive corporate responsibility reports: GE's pairing of Ecomagination advertisements and marketing messages with solid, metrics-driven reports is an excellent example of strategic positioning in the guise of corporate communications.

The pharmaceutical industry provides an example from a different sector. Companies such as Bristol Myers-Squibb and Novo Nordisk have consistently issued highly regarded reports, and for good reason: There is no better way to generate trust among stakeholders than through transparency.

The mining industry—another sector that depends a great deal on public trust—has also produced some top-quality reports. BHP Billiton offers an excellent case study in current ESG reporting strategy.

Case Study: BHP Billiton

BHP Billiton, headquartered in Melbourne, Australia, is the largest diversified natural resources company in the world. It has also become a leader in corporate responsibility reporting.

The company's initial motivation for reporting in 1997 was, in part, peer pressure from mining competitors such as Western Mining Corporation (WMC, Ltd.), also based in Australia (and acquired by BHP Billiton in 2005).[7] The company was also caught up in the controversy surrounding the Ok Tedi mining operations in Papua New Guinea, of which it has since divested itself.

As with most early efforts, BHP Billiton's initial reports focused on environmental issues. They made only passing reference to community relations and to workplace and product safety.

Today, however, the company produces one of the most comprehensive (if also one of the longest) annual sustainability reports in the world, regardless of industry sector. Additionally, it publishes a biennial community case study report entitled *Yesterday, Today, Tomorrow*. BHP Billiton supplements both reports with site-specific information on the Web and/or in hard copy, depending on local and business objectives.

BHP Billiton's reports have been consistently ranked among the world's best. In the last two years, the company's approach to reporting has been recognized by the Association of Certified Chartered Accountants (U.K.), the Australian Reporting Awards, and Business in the Community (U.K.). BHP Billiton has also achieved strong performance in various sustainability indices.

In addition to the management team that prepares the actual reports at BHP Billiton, the corporate group employs a sophisticated data-collection system that is managed by a full-time senior staff member, Bryn McDougall. With the title of Health, Safety, Environment and Community Data Coordinator, Mr. McDougall oversees a yearlong process that includes collection, compilation, external verification, and analysis of data.

Commenting on the data-collection and reporting process, Mr. McDougall states, "The devil is in the detail. For example, we must report greenhouse gas emissions using the different calculation requirements imposed by various government agencies. This means that we report more than one result, which can be confusing for some of our stakeholders."

Other sticking points include definitions of terms, accounting for acquisitions and divest-

A Mirror on the Industry?

The maturation in BHP Billiton's reporting over the past decade may reflect a growing industry awareness of the need to be more responsive to stakeholder concerns.

For decades, communities in developed countries have objected to new mining operations in their midst. In general, these objections have not posed a significant problem for mining companies since the richest deposits in these countries have already been mined. Most exploration and development now takes place at remote locations in developed countries or within developing countries, where companies historically have faced less opposition.

Beginning in the mid-1990s, however, the mining industry began to encounter considerable resistance from communities, even those in isolated, economically depressed areas. Witness the Rosemont controversy in Arizona;[a] the community protests in 2004 and 2006 over Newmont Mining Corporation's plans to expand operations in Peru;[b] and the eight-year battle over CEMEX's plans to open a gravel mine near Santa Clarita, California.[c]

Mining companies began to recognize that growth through acquisition was not a sustainable strategy. Recently, though, higher mineral prices have caused some temporary amnesia.

Greenfield site development (which requires winning the battle for permits) is key to any mining company's long-term viability. To obtain and keep permits, a company must build and maintain trust at the international, national, and (especially) the local level.

With the Internet, activist organizations around the world can quickly access data on all of a company's mining activities. In such an information environment, one problematic mine can undercut a company's ability to gain trust.

Companies that make the effort to engage with stakeholders and learn about their concerns can often develop solutions that help preserve the company's ability to obtain necessary permits while maintaining productive relationships with neighboring communities. As BHP Billiton evidently has learned, comprehensive reporting is a key element in that effort.

Notes

a. See http://savethesantacruzaquifer.info/index.htm.
b. See http://www.oxfamamerica.org/newsandpublications/press_releases/archive2004/press_release.2004-11-05.1358008507.
c. http://www.stoptmc.org/.

ments, base-year issues, normalization based on intensity or production rates, emission-factor standards, and fine tracking. Despite these difficulties, BHP Billiton's internal reporting processes, metrics systems, and openness to external input have allowed the company to consistently produce high-quality reports.

Conclusion

Ultimately, to be effective, a corporate responsibility report must be based on:

- an externally informed internal analysis of the materiality of stakeholder concerns and their impact on, and relevance to, the company's business strategy;
- a body of good, verified data that quantify and track performance; and
- a clear nexus between ESG performance and business strategy.

Equally important to any corporate responsibility reporting initiative is top-level management support and direction.

The parallel to financial reporting is instructive: Good financial reporting describes what the company is doing for shareholders and explains the strategy it has adopted to deliver results in the future. Effective corporate responsibility reporting describes quantitatively what the company has done and is currently doing to address stakeholder concerns, while also highlighting the company's objectives for the future and how it will achieve them.

Instituting a robust reporting process takes a tremendous amount of effort. Yet it is effort that is well worth the time and resources involved because of the payoff it produces in the form of risk reduction and enhanced business value.

Notes

1. The nomenclature used to describe what we refer to here as "corporate responsibility" varies among commentators. Commonly used terms include corporate citizenship, social responsibility, sustainability, sustainable development, and corporate social responsibility (CSR), among others.

2. See SustainAbility. (2006). Tomorrow's value—The global reporters 2006 survey of corporate sustainability reporting, at p. 1. Available online at http://www.sustainability.com/insight/research-article.asp?id=865.

3. Elkington, J., & Lee, M. (2006, October 24). Third time's the charm. Grist. Available online at http://www.grist.org/biz/fd/2006/10/24/guidelines/.

4. KPMG Global Sustainability Services. (2005). KPMG international survey of corporate responsibility reporting 2005. Available online at http://www.kpmg.nl/Docs/Corporate_Site/Publicaties/International_Survey_Corporate_Responsibility_2005.pdf.

5. A recent study published by Gartner lists "risk management" and "guilty conscience" as reasons that companies "embrace CSR" and notes that companies that "embrace CSR can often keep regulators and lawmakers from questioning activities."

6. See, for example, MacLean, R. (2006, October). Metrics, Las Vegas style: Instead of betting on the numbers, develop a metrics strategy. Environmental Protection, 17(8).

MacLean, R. (2005, April). Identifying metrics with strategic business impact. Environmental Protection, 16(3).

7. BHP Limited merged with London-based Billiton Plc in 2001 to form BHP Billiton.

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