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ISSUES IN BRIEF

The Future of Corporate Social Responsibility Reporting

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With more than 60,000 multinational corporations in the world today — along with more than 800,000 subsidiaries and millions of suppliers — the web of private enterprise is wider and more connected than at any other time in history (Ruggie 2004, 510). At the same time, concerns are mounting about the sustainability of the world economy, as well as our ability to address global challenges such as climate change, pollution, poverty, disease, and inequality. While in the past people have often looked to government to protect society from such threats, today it is clear that government cannot do the job alone. Harnessing the power of business to improve social and environmental conditions across the world has thus become a priority for policymakers and other stakeholders, and it represents a central aim of the corporate social responsibility (CSR) movement.

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Broadly defined, CSR comprises the voluntary (i.e. not required by law) efforts of companies to address the social and environmental concerns of their stakeholders. CSR thus requires companies to be accountable to more than just their shareholders. Today the push for CSR comes from a diverse group of affected parties that include owners, managers, employees, investors, consumers, business partners, communities, and governments. Often referred to as "corporate citizenship," "sustainability," or just "corporate responsibility," CSR is unquestionably a phenomenon on the rise. Although not without its critics, CSR has been steadily gaining momentum in recent years, raising hopes for the future.

Generally speaking, there are two dominant perspectives on CSR. First, CSR is viewed as a means of improving corporate accountability, transparency, and performance on social and environmental issues. This perspective derives largely from high-profile disasters like the Exxon Valdez oil spill and the Union Carbide gas leak in Bhopal. The second perspective views CSR not as a way to redress corporate wrongdoing or fill governance gaps but as a means of "mobilizing the private sector to engage in community and international development efforts" (Nelson 2004, 2). This perspective looks at the positive role that business can play in protecting the environment and improving social conditions. These two perspectives are not mutually exclusive, of course. Ideally, we would like to have companies that are accountable, transparent, and a force for good. Some companies have found a first-mover advantage in being early CSR-adopters, but many companies remain on the sidelines. Transforming CSR ideals into reality requires new policy frameworks that create incentives for companies to innovate and integrate CSR into their core operations while at the same time serving the needs of a diverse group of stakeholders.

This paper examines CSR reporting as a national-level policy innovation that may help lead the way toward a more sustainable global economy. While more and more companies today are deciding to publish reports detailing their social and environmental impacts, reporting on such non-financial data has not yet become part of the "mainstream." A quick comparison to financial reporting reveals as much. As anyone who has visited Yahoo! Finance (or any similar website) knows, corporate financial data, at least at a basic level, is readily available to the public. All companies report in a standardized way, the data is collected and centralized, and, as a result, investors and other interested parties have the information they need to make informed decisions. Not so when it comes to CSR reporting. In 2009, nearly 90 percent of the Fortune Global 100 released CSR reports, yet most stakeholders remain uninformed about the social and environmental performance of these (and many other) companies. As discussed below, the relatively poor state of CSR reporting today represents the breakdown of national-level reporting frameworks that, until recently, relied almost entirely on voluntary standards. To take CSR reporting into the mainstream, we need governments to approach mandatory CSR reporting as part of a long-term strategy to promote sustainable business practices.

Moving the CSR Agenda Forward

The fear concerning CSR is that it is insignificant. How much of CSR is just greenwash? Does CSR actually improve social and environmental outcomes? These questions are difficult if not impossible to answer today without more reliable and comparable data on what companies are doing. Thus, corporate disclosure of social and environmental impacts constitutes what some advocates consider to be a critical pillar of the CSR movement. In theory, corporate disclosure pushes the CSR movement forward by providing stakeholders with "actionable" information that can be factored into future decisions. Investors deciding where to direct their money, employees deciding where to work, public policymakers deciding what to regulate, consumers deciding what goods to purchase — all these groups benefit from corporate disclosure of CSR-related information. CSR reporting can also be an effective backdoor into bolstering companies' CSR programs and initiatives. Indeed, one key advantage of CSR reporting is that it can encourage firms to develop CSR programs without making the programs themselves mandatory.

> "... despite these efforts to standardize CSR reporting, reports published today vary considerably both in content and quality."

The history of CSR reporting is very much tied to the development of CSR standards more

Timeline of CSR Reporting

Year	Event
1976	The Organisation for Economic Co-operation and Development (OECD) releases the OECD Guidelines for Multinational Enterprises as a set of voluntary standards and principles for responsible business.
1977	The Sullivan Principles are created to help U.S. companies apply economic pressure on South Africa to end apartheid.
1977	The French government requires disclosure of labor and employment-related information for companies with more than 300 employees.
1984	An explosion/gas leak at a Union Carbide chemical plant in Bhopal, India kills more than 3,000 people in the surrounding community.
1989	The *Exxon Valdez* crashes into Bligh Reef off the coast of Alaska, spilling close to 11 million gallons of oil into Prince William Sound.
1990s	Royal Dutch Shell's operations in the Niger Delta lead to conflict between the Nigerian government and local communities and allegations of human rights abuses.
1990s	A series of labor abuses are revealed in the Nike supply chain, including child labor (Cambodia and Pakistan), hazardous working conditions (China and Vietnam), and poor wages (Indonesia).
1997	The Global Reporting Initiative (GRI) is formed by Ceres and the Tellus Institute, two Boston-based nonprofit organizations. The GRI releases its Sustainability Reporting Guidelines in 2000.
2000	The United Nations Global Compact (GC) is launched by UN Secretary General Kofi Annan.
2000	The Carbon Disclosure Project is created to encourage companies to disclose their greenhouse gas emissions.
2001	The Enron scandal reveals widespread accounting fraud; thousands of employees lose their jobs and pensions as the company files for bankruptcy.
2001	The French government mandates CSR reporting for all listed companies through the New Economic Regulations (NRE) Act.
2003	AccountAbility releases its AA1000 Assurance Standard.
2004	The Johannesburg Stock Exchange creates its first Socially Responsible Investment (SRI) Index.
2006	The International Finance Corporation (IFC) begins using its Policy and Performance Standards on Social and Environmental Sustainability for all project financing.
2008	Sweden and Denmark announce legislation to mandate CSR reporting.
2010	An explosion at BP's *Deepwater Horizon* drilling rig spills more than 200 million gallons of oil into the Gulf of Mexico.
2010	The GRI and GC sign a Memorandum of Understanding in which the two initiatives agree to align their efforts to promote CSR.
2010	The International Organization for Standardization releases its first CSR standard, ISO 26000.

generally and to external events that rally support for CSR across stakeholder groups (see above for a timeline of landmark standards and events). Today CSR reporting is structured largely around several key guidelines that include the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the Global Reporting Initiative's Sustainability Reporting Guidelines, AccountAbility's AA1000 Assurance Standards, and the International Finance Corporation's Performance Standards. The United Nations Global Compact (GC) has also had a significant impact on the development of CSR reporting. The GC comprises a network of business and non-business participants that have committed to upholding ten basic principles of CSR related to human rights, labor, the environment, and anti-corruption. The GC requires all participating companies to produce a CSR report based on these principles. As we will see in the next section, many companies have failed to comply with this reporting requirement, yet membership in the GC continues to grow.

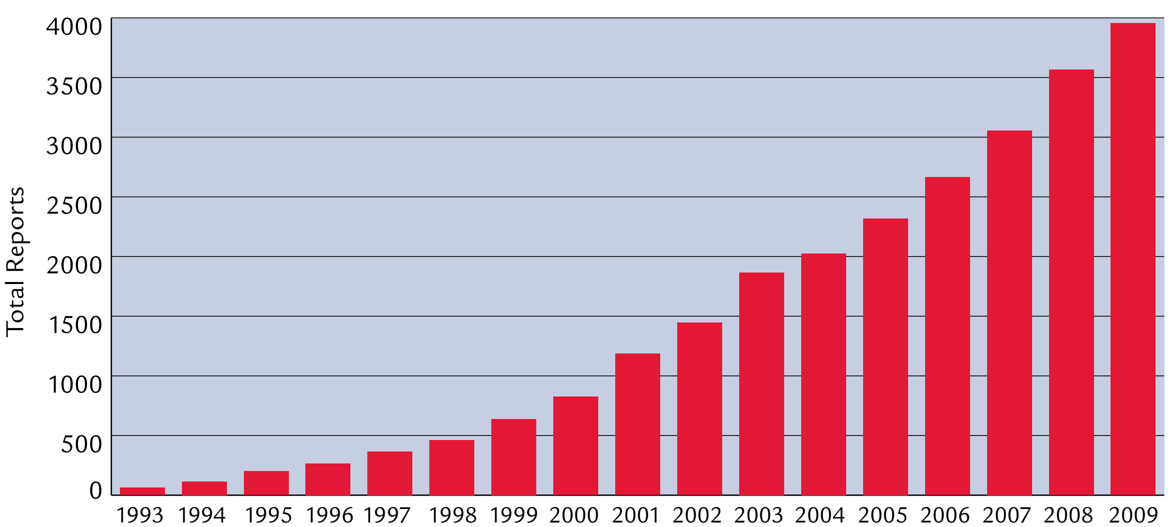
> "Ultimately the future of CSR reporting depends on the development of national-level CSR reporting regimes that can boost participation while improving the content and quality of disclosures."

While there remains no set definition of what constitutes a CSR report, the guidelines created by the Global Reporting Initiative (GRI) are quickly becoming the de facto standard across the world. The GRI guidelines are based on a combination of principles and Key Performance Indicators (KPIs). The principles offer broad guidelines for reporting, whereas the KPIs require companies to report on specific measures of performance. The GRI principles cover content-related issues such as materiality, completeness, and stakeholder inclusiveness, as well as quality-related issues such as balance, comparability, accuracy, timeliness, clarity, and reliability. The KPIs — there are 79 of them in total — cover six broad performance areas: economic performance, environmental performance, labor practices, human rights, society, and product responsibility. Because of organizations such as GRI, companies that are interested in CSR reporting today benefit from a wide array of standards and guidelines that can help them figure out both what and how to report. However, despite these efforts to standardize CSR reporting, reports published today vary considerably both in content and quality.

The Current State of CSR Reporting

According to CorporateRegister.com, nearly 4,000 companies produced CSR reports in 2009. That figure marks more than a ten-fold increase since the mid-1990s (see Figure 1). GRI reports that nearly 1,400 companies implemented its guidelines in 2009, also part of a steady rise over the last decade (see Figure 2). Similarly, membership in the GC has now grown to more than 6,000 business participants in 123 countries. And, as previously mentioned, CSR reporting has become particularly commonplace among the world's largest companies. For 2009, 88 of the largest 100

Figure 1: Total CSR Reports Published



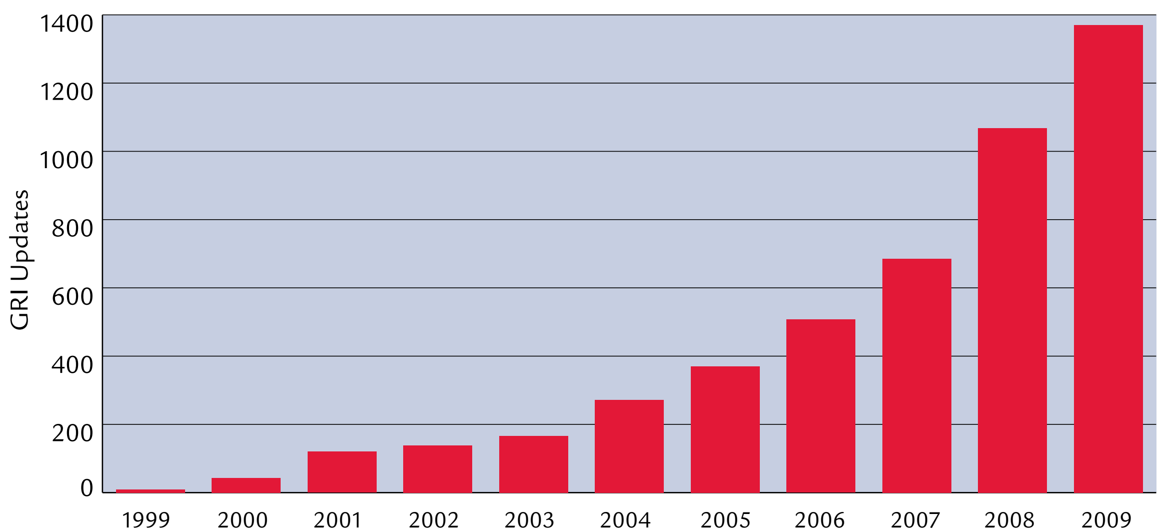
Source: www.CorporateRegister.com

companies (by revenue) published CSR reports. Of this group, 63 used the GRI guidelines and 51 were active members of the GC.

But for all of the progress that has been made, there are a number of troubling trends in current CSR reporting. First, it must be pointed out that the majority of companies are still not reporting at all. Of the 60,000 or so multinational corporations that exist today, the 4,000 companies that reported in 2009 represent only about 6.5 percent of the total. In addition, the reports that are produced can run hundreds of pages long and often include a host of claims that are difficult to verify and are of dubious value to stakeholders.

Serious concerns have also been raised about the GC and the GRI. Nearly 2,000 companies have been delisted (i.e. removed) from the GC for non-compliance with the initiative's reporting requirement. Of the 6,000 companies that remain in the GC, roughly 20 percent are "non-communicating" and are at risk of being removed within the next year. Non-compliance with GC reporting requirements is particularly common in developing countries, who are home to 48 percent of active GC members, 54 percent of non-communicating companies, and more than 70 percent of delisted companies. Non-compliance is also an issue regarding the GRI reporting guidelines. While uptake of GRI guide-lines is rising, most companies use only portions of the guidelines. The GRI has established a system of "Application Levels" to measure the extent to which companies utilize the guidelines. In 2009, 25 percent of GRI-users did not report an Application Level; among those that did report an Application Level, only 400 qualified their report as "A-level," meaning that the company has reported on, or explained the omission of, all 79 performance indicators.

Figure 2: Use of GRI Reporting Guidelines



Source: "GRI Reports List," www.globalreporting.org/ReportServices/GRIReportsList/

Thus, while CSR reporting has come a long way, there is still a long way to go. Ultimately the future of CSR reporting depends on the development of national-level CSR reporting regimes that can boost participation while improving the content and quality of disclosures.

CSR Reporting Regimes

There is a great deal of cross-national variation when it comes to CSR reporting (UNEP et al. 2010; Visser and Tolhurst 2010). While multinational companies have spread out across the continents, the social and legal framework in which business takes place is not yet entirely global. The domestic context thus continues to play an integral role in CSR reporting. The following classification of CSR reporting regimes aims to make sense of these differences in

Key Criteria in CSR Reporting Regimes

Mandatory or voluntary?
Some CSR regimes are purely voluntary whereas others comprise a mixture of mandatory and voluntary standards. In the latter cases, the key question is typically *what aspect(s)* of the standards regime are mandatory or voluntary.

Principles- or rules-based?
CSR reporting regimes rely on some combination of principles and rules. Some regimes give considerable freedom to companies to report based on broad principles while other regimes focus on the shared use of Key Performance Indicators (KPIs).

Standards *made by?*
Reporting standards today come from national governments, stock exchanges, the private sector, and/or the nonprofit sector.

Standards *made for?*
CSR reporting standards are most commonly directed at publicly listed companies, large companies, and/or state-owned companies.

Standards *regarding?*
CSR reports cover a wide range of issues, including the environment, human rights, labor, community, products, and anti-corruption.

home country frameworks (see box at left for a list of key criteria in CSR reporting regimes).

Strong-State Regimes: State-mandated CSR reporting exists today in France (since 1977; updated in 2001), Malaysia (2007), Denmark (2008), and Sweden (2008). While other countries may require disclosure on particular CSR issues — such as the Toxic Release Inventory in the United States — these are the only countries, so far, to require broad-based CSR reporting for all listed companies (in the case of France and Malaysia), large companies (Denmark), or state-owned companies (Denmark and Sweden).

Mixed-Method Regimes: Many countries continue to produce large numbers of CSR reports without instituting the kinds of mandatory standards described above. The United Kingdom, for instance, has long been a leader in CSR reporting. The 2006 British Companies Act requires listed companies to include a discussion of relevant CSR information in their annual report, but full-length CSR reporting remains voluntary. Reporting is also largely voluntary in the United States, but, as mentioned, the government has intervened to require CSR-related disclosure on particular issues.

Emerging Market Regimes: Emerging market countries such as Brazil, China, and South Africa have become leaders in CSR reporting in the developing world. They have done so largely through the uptake of voluntary standards and the involvement of local stock exchanges. The Johannesburg Stock Exchange (JSE), for example, became the first emerging market stock exchange to create a socially responsible investing (SRI) index in 2004. Brazil's Bovespa Stock Exchange followed suit with its own index in 2005. China has also encouraged CSR reporting in guidelines released through the Shanghai and Shenzhen Stock Exchanges.

Underdeveloped Regimes: Many countries have virtually no CSR reporting regime at all due to either a weak economy, a weak government, or some combination of the two.

The Future of CSR Reporting

The following issues are likely to be important topics of debate in the future:

CSR Reporting and Trade: There is some worry that CSR reporting standards could function as non-tariff barriers to trade. This is a reasonable concern. If the information in CSR reports is truly "actionable," then greater uptake of CSR reporting standards is bound to result in winners and losers, as companies that sell otherwise like-products can be differentiated based on social and environmental performance. CSR reporting thus fits into a larger debate on whether the socially responsible investment (SRI) and ethical consumption movements are compatible with existing WTO rules. Viewed another way, there is reason to wonder whether

WTO rules represent "disincentives to firms to act responsibly in international markets" and thus hinder the development of CSR (Aaronson 2007).

The "One Report" Movement: There is also a growing interest in combining non-financial and financial data into one integrated report. The so-called "one report" movement argues that integrated reporting is "a way of communicating to all stakeholders that the company is taking a holistic view of their interests" (Eccles and Krzus 2010, 11). Integrated reporting makes some intuitive sense. Companies are often maligned for creating new CSR departments rather than integrating CSR into their core business model. How is creating a separate CSR report any different? At the same time, there is reason to be worried about what could be lost through integrated reporting. CSR reports already must serve the needs of a diverse group of stakeholders, and the average shareholder, it seems, cares little about CSR-related information. Not only that, but many firms have still not learned how to effectively report on CSR in the first place. Without more shared understanding about the merits of CSR reporting and of sustainability more generally, integrated reporting may be an idea whose time has not yet come.

Web-based CSR Reporting: The Internet is transforming the way companies disclose information and communicate with their stakeholders. Web-based reporting allows investors and other stakeholders to get information quickly, easily, and in a way that is tailored to their needs. At the same time, some companies are using web-based reporting in lieu of formal CSR reports, raising questions about whether information that is disclosed over a series of webpages can be compiled, preserved, and disseminated as effectively as with traditional reports. There is nothing wrong with a helpful company website, of course. However, it seems likely that in a future world where CSR reporting is mainstream, users will not be accessing CSR-related information via company webpages but through centralized databanks. If web-based reporting does not move us toward that world, it may be a step backwards. That said, web-based CSR reporting has enormous potential to improve dialogue between companies and their stakeholders, and it is likely to become a key source of innovation in the CSR movement.

> "For CSR reporting to survive in a meaningful way, several obstacles need to be overcome."

Suppliers and Subsidiaries: Another key question for the future is whether CSR reporting will include disclosures about suppliers and subsidiary operations. This issue is critical given that suppliers and subsidiaries are responsible for such a large portion of companies' social and environmental footprint. It is for this reason, however, that improving disclosure is likely to be an uphill climb. Companies are already pushing back in France, for instance, where the New Economic Regulations (NRE) Act does not require holding companies to report on their subsidiary operations, although clearly the "spirit of the law" is for more disclosure (UNEP 2010, 80).

Mandatory CSR Reporting: If current trends are any indication, CSR reporting will become mandatory for more companies and in more places over the coming years. As mandatory CSR reporting becomes the norm, it will become necessary to deal with companies that refuse to report or report fully as well as companies that report false or misleading information. Compliance auditing by for-profit and nonprofit organizations (which is already available) will continue to play a major role in policing the content and quality of CSR reports.

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Will CSR Become Mainstream?

CSR reporting is here to stay — certainly for the next several decades, and possibly for much longer. The question, though, is how mainstream will CSR reporting become? For CSR reporting to survive in a meaningful way, several obstacles need to be overcome. First, CSR reporting must become more standardized to improve comparability. Comparisons are at the heart of decision-making, and informed decision-making is what allows CSR reporting to impact social and environmental conditions. Second, CSR reporting regimes need to limit greenwashing and raise confidence in the disclosures being made. If the information disclosed cannot be trusted, no one will act on it. Third, CSR reporting needs to be extended to more firms. Allowing bad companies to fly under the radar not only deprives stakeholders of valuable information but undermines the legitimacy of the CSR reporting regime as a whole. Finally, the information disclosed through CSR reports needs to be centralized and made widely available to stakeholders. Information systems represent the last link in a long chain that takes CSR reporting from niche to mainstream.

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