Policy Statement

ICC views on economic, environmental and social reporting

Prepared by the Commission on Business in Society

Introduction

An important way for companies to convey their commitment to responsible business conduct is to communicate timely and reliable information on their economic, environmental and social performance. Reporting on issues other than financial results is not a new phenomenon. Since the late 1980s, companies have been developing their reporting practices on non-financial indicators, starting with environmental reporting. A relatively small but growing number of companies are now regularly providing documented information on the economic, environmental and social impacts of their activities, usually in the form of a yearly report or as part of their traditional financial reports.

In light of a growing trend towards prescriptive approaches to economic, environmental and social reporting, and in the context of the wider debate over the effectiveness of such reports, ICC wishes to bring a world business perspective on possible ways to improve the reporting process in a way that benefits both report producers and users. ICC hopes that those involved in the ongoing discussions on economic, social and environmental reporting – including companies themselves, governments, investors, civil society, labour, and rating agencies will find the following recommendations of interest. This statement is also intended to encourage those companies that have not yet developed their economic, environmental and social reporting to give consideration to these issues and to help these companies approach them in a manageable way.

The rationale for economic, environmental and social reporting

Many companies have come to realize that financial reporting alone no longer satisfies the needs of their shareholders, customers, employees, communities in which they operate and other stakeholders for information about overall organizational performance. Increasingly, companies are expected to complement their financial reporting with non-financial indicators. By regularly reporting on their economic, environmental and social performance, many companies believe they can enhance their reputation, build employee morale, attract more candidates for employment, enjoy sustained public goodwill, improve their ability to raise capital and ultimately benefit their bottom line.

From a management perspective, reporting can help companies to track their progress in

implementing responsible business practices and to identify areas for improvement on a continual basis. Business managers use the reporting process as an opportunity to measure the effectiveness of their management practices and systems, to improve internal communication on corporate responsibility policy and objectives, and to set targets for future performance.

Companies are also using such reports to convey the broader economic, environmental and social benefits they provide through their products and services, as well as through their ongoing operations, including job creation, employee training and human resource development, technological innovation and product development, and, at the most basic level, tax payments.

Economic, environmental and social reporting: an evolving field

Markets all over the world provide examples of companies who publish economic, environmental and social reports. While these companies and their stakeholders all recognize the value of economic, environmental and social reporting, they also recognize that this is very much an evolving field and that there is no broad agreement on the content of such reporting. Moreover, there is a growing debate among both report producers and users on the costs and benefits of "formal" reporting on economic, environmental and social impacts – in the form of a yearly publication. Many companies ask themselves whether the benefits of reporting are justified by the effort and costs required to prepare lengthy formal reports.

The search for value from reporting has led to a considerable amount of experimentation with reporting formats to better target different types of information to different audiences. For example, companies are experimenting with shorter reports complemented by separate tools such as a web-based material with more specific and detailed information (on the composition of products or production methods for example).

Through such experimentation, companies are seeking to address some of the limitations that have emerged from experience in producing lengthy formal reports. Report readers often find themselves overwhelmed by the volume of information published. More generally, the credibility of company reporting is being questioned, particularly in light of recent corporate governance scandals. The growth in number of questionnaires by socially responsible investment funds and rating agencies could also be interpreted as an indication that formal reporting is not able to satisfy the varied and growing demands of many different stakeholders.

These limitations are a reminder that reporting is only one part of the broader issue of communication with stakeholders and the public. Economic, environmental and social reporting should therefore be seen as one element of a continuous dialogue with stakeholders rather than a stand-alone exercise.

Reporting frameworks should be voluntary and flexible

Depending on their particular circumstances and needs, companies each develop their own approach to economic, environmental and social reporting. For a growing number of companies, experience has shown that an effective and economically efficient reporting process is one that that allows business managers to measure their progress in implementing responsible business practices; that provides stakeholders and the broader public with a fair and balanced view of a company's efforts and achievements in contributing to good corporate citizenship; and that companies are able to manage at reasonable cost.

There is strong support among companies for voluntary and flexible reporting on their non-financial performance, which they regard as part of their desire to communicate about their activities with their key stakeholders and society in general. Experience so far in voluntary reporting on economic, environmental and social performance has shown that companies have addressed these issues in a variety of different ways, reflecting the great diversity that exists within business. This diversity of company responses to these challenges should be nurtured and encouraged by ensuring that reporting remains voluntary and flexible, so as to foster further innovation and experimentation; to add value to the reports being produced; and to increase the number of companies participating in this process. The fact that there is no single way to address these issues is not a problem, but rather a positive factor to be cherished, as diversity and flexibility will encourage companies to continually review and improve their reporting practices.

For the above reasons, ICC feels strongly that governments and others should resist the temptation to introduce mandatory reporting requirements, overly detailed standardized reporting frameworks or other structures that limit flexibility. Such a prescriptive approach would be counter-productive and would risk seriously undermining efforts by business around the world to continue to develop innovative, effective and manageable reporting practices. In particular, it would lead to a number of impracticalities for both report producers and users:

- Standardized reporting requirements would lead companies to allocate considerable resources to report on issues that may be irrelevant to their business operations or to the expectations of their stakeholders. For small and medium size enterprises, meeting certain requirements may be unrealistic or have unreasonable resource implications. The use of "one size fits all" indicators could result in real disparities in the value of information reported.

- The growing trend towards legislated reporting requirements by governments may result in incompatible and possibly conflicting national or regional requirements, leading to greater confusion for investors and stakeholders. This may create particular problems for multinational companies, whose subsidiaries operate in different countries and widely differing business environments, and whose activities are in many cases not comparable, either within or among companies.

- Companies should not be required to disclose business proprietary information, or information that could leave room to interpretation and may lead to unwarranted litigation.

- Rigid and detailed requirements would discourage innovation and experimentation by companies to improve the quality of their reporting practices. In addition, such a process would risk making reporting on corporate responsibility activities a "pro-forma" exercise instead of encouraging companies to approach reporting as a dynamic process, based on a continuous review and improvement of their practices and performance.

- Reporting frameworks should take into account that there may be a number of different ways to achieve an envisaged result. Companies should therefore be encouraged to explore a wide variety of approaches to reporting, as this will contribute to the development and a better understanding of good corporate practices and performance. Reporting frameworks should set the goals rather than locking down precise indicators, and leave companies to determine the most efficient ways to achieve them.

- A prescriptive approach may even discourage companies from pursuing a dialogue with stakeholders on corporate responsibility and from giving due consideration to what is important to the business and, instead, nudge them towards choosing a lowest common denominator or "tick-the-box" approach to complying with mandated reporting requirements. As a result, regulatory requirements on non-financial reporting will almost certainly lead to reports that will be of little or no value to the wide range of stakeholder audiences.

International reporting frameworks

Given the wide differences between industries and individual companies, the content of economic, environmental and social reports is bound to vary. Several international initiatives have emerged to provide harmonized reporting guidelines, with a view to developing a common yardstick for voluntary reporting of the economic, environmental and social impacts of company activity. In this context, ICC considers that the development of global, flexible and voluntary reference criteria for economic, environmental and social reporting can help companies focus on key issues when producing reports.

An example is the work of the Global Reporting Initiative (GRI) on a global set of common core indicators. The GRI guidelines are for voluntary use by companies for reporting on the economic, environmental and social dimensions of their activities, products and services. The elaboration of these guidelines incorporates the participation of representatives of business, accountancy, investment, environmental, human rights, research and labour organizations from around the world.

The United Nations Conference on Trade and Development (UNCTAD), through its Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has also developed best practices on reporting for environmental costs and liabilities to help companies integrate environmental reporting into their financial reports,

followed more recently by detailed guidance on the estimation and use of eco-efficiency indicators. ISAR's current work has been focused on the social component of corporate responsibility reporting. Reporting was also one of the key topics addressed by the European Union (EU) Multi-Stakeholder Forum on Corporate Social Responsibility.

ICC considers that these initiatives and other voluntary reporting guidelines, offer useful guidance to companies on what to report and how. Such initiatives are especially valuable in having developed their guidelines through a multi-stakeholder process. For these reasons, ICC is of the view that a multi-stakeholder approach to the development of voluntary reporting frameworks can make a positive contribution to gaining a better understanding of these issues, and that companies should be encouraged to participate in such processes.

However, there is growing concern among world business over the possibility that one or more of these frameworks might become the basis for mandatory reporting guidelines. Transforming a global, flexible and voluntary reference tool into a mandatory framework would remove nearly all of the advantages that made such guidelines attractive to companies in the first place. It would also certainly create great difficulties, especially for small and medium-size companies, to cope with such a detailed framework.

The role of national governments

In parallel to such voluntary initiatives by international organizations, several national governments (e.g., France and South Africa) have begun to introduce mandatory reporting requirements on companies to include non-financial information in their traditional financial reports. ICC is seriously concerned by this growing trend towards legislated reporting requirements and wishes to express its clear opposition to the imposition by governments -- either legally or morally -- of detailed frameworks for economic, environmental and social reporting.

ICC recognizes that national governments may be under pressure to take measures on reporting in the context of the ongoing debate on corporate responsibility and accountability. In this context, ICC considers that -- rather than creating their own requirements -- governments should encourage and support existing global initiatives on developing voluntary reporting frameworks. As stated above, regulatory requirements to produce economic, environmental and social reports will almost certainly lead to a mechanical and lowest-common-denominator approach to reporting and generate reports of little or no value to the wide range of stakeholder audiences.

Socially responsible investment funds and rating agencies

Another problematic development is the proliferation of questionnaires prepared by socially responsible investment (SRI) funds and rating agencies. This practice is imposing an increasingly unmanageable burden on companies, who find themselves inundated with questionnaires. Completing such detailed questionnaires has become very time-consuming for companies, especially when each survey puts forth its own set of questions and often lacks transparency in describing how the final results are derived.

ICC considers that greater convergence in the formulation of SRI questionnaires and greater transparency as to why the information is sought, how it is processed, and how results are derived would be extremely useful. Such measures could result in higher response rates to questionnaires and would leave more time for the more valuable engagement of companies in direct dialogue with SRI funds and rating agencies. ICC also encourages companies to carefully select which questionnaires they answer in order to make the process less burdensome and more relevant to their specific circumstances. Some companies refer issuers of questionnaires to their websites in the first instance. This may be a practical way to deal with having too many questionnaires to answer.

Developing a balanced approach to reporting

The key challenge for companies is to develop a balanced approach to economic, environmental and social reporting, which meets their needs and those of their stakeholders in the most effective way, leveraging their core competencies to address specific issues related to their activities. A first step is to consider reporting in the context of the broader and ongoing process of dialogue and communication with the full range of key stakeholders, particularly owners, employees, and local communities. Companies should also review any existing communications tools used to reach key stakeholders and the general public, and assess which information will be most relevant to each stakeholder group, using dialogue with such groups where appropriate. Companies should then consider additional reporting factors needed for effective communication with a range of stakeholders, including the format, length, content and frequency of the communication. In doing so, companies need to strike a balance between what is practical for them to manage and report, and what stakeholders and external audiences can reasonably expect.

The choice of indicators will often be influenced by practical considerations such as the ability to use existing data collecting systems within the company, rather than to incur the costs of developing new ones. While companies should not be expected to report on issues that are not relevant to their business operations, a company may wish to explain why it has chosen not to report on a specific issue. It must be recognized that not all performance targets are appropriate for use in external communications, particularly those that are set for internal stewardship purposes. Determining which indicators are suitable to communicate externally is best left to the reporting company.

Companies also need to integrate the reporting process into their broader management systems. Indeed, to be most useful, reporting processes and indicators should be based upon the company's management systems rather than drive the shape and content of those systems. Reporting is truly useful if it leads to change and helps companies improve their business practices over time. By analyzing the data collected in their reports, companies will be able to track their performance and identify areas for improvement.

Conclusions and practical recommendations

Given the continuing evolution of reporting, the active search for improved formats and the relatively small number of reporting companies, ICC strongly favors a voluntary and flexible approach to reporting over a prescriptive and standardized approach. As a point of reference,

ICC proposes the following practical recommendations with a view to improving voluntary and flexible reporting guidelines, in a way that benefits both report users and producers:

1. Voluntary and flexible guidelines to reporting should make it easier for companies to define the boundaries of corporate responsibility and the core indicators needed for measuring non-financial performance, and to integrate corporate responsibility into their management and information systems.

2. Voluntary and flexible frameworks are necessary to allow companies to design reports and other communications tools that maximize the value to both the reporting company and its key stakeholders, which in turn will encourage more companies to produce such communications. Reports with high costs and few benefits serve no purpose and divert resources from more productive uses.

3. Voluntary and flexible reporting guidelines should help companies to produce credible and substantive reports and other forms of communications that can help stakeholders assess the company's performance.

4. Reports should help external audiences to understand what companies have reported on and why.

5. Voluntary and flexible reporting guidelines should encourage companies to focus their reporting on issues related to their core business activities and their key material impacts, and to their stakeholder interests. In this respect, the concept of materiality[1] is key to determining what companies should report on. To be truly effective, reference criteria for reporting should concentrate on core principles and allow companies to tailor their reporting practices to their specific resources and circumstances.

6. Voluntary and flexible reporting guidelines should encourage companies to report against a limited number of essential performance indicators, which would give a good indicative account of a company's performance. Companies should retain the flexibility to tailor such indicators to their particular circumstances.

7. Voluntary and flexible reporting guidelines should allow for the considerable divergence that exists worldwide with regard to government-mandated reporting requirements, especially in relation to corporate governance issues.

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[1] The Global Reporting Initiative defines materiality in reporting as the disclosure of all information of significant concern to stakeholders for assessing the reporter's economic, environmental, and social performance. This does not mean that materiality should lead to report an indiscriminate volume of information. Too much information can lead to confusion and frustration on the part of report readers. The concept of materiality is currently in the process of being more narrowly defined in order to better address this issue (see for example a publication by AccountAbility entitled "Redefining Materiality: practice and public policy for effective corporate reporting").

About ICC

ICC is the world business organization, the only representative body that speaks with authority on behalf of enterprises from all sectors in every part of the world. ICC promotes an open international trade and investment system and the market economy. Business leaders and experts drawn from the ICC membership establish the business stance on broad issues of trade and investment policy as well as on vital technical and sectoral subjects. ICC was founded in 1919 and today it groups thousands of member companies and associations from over 130 countries.

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