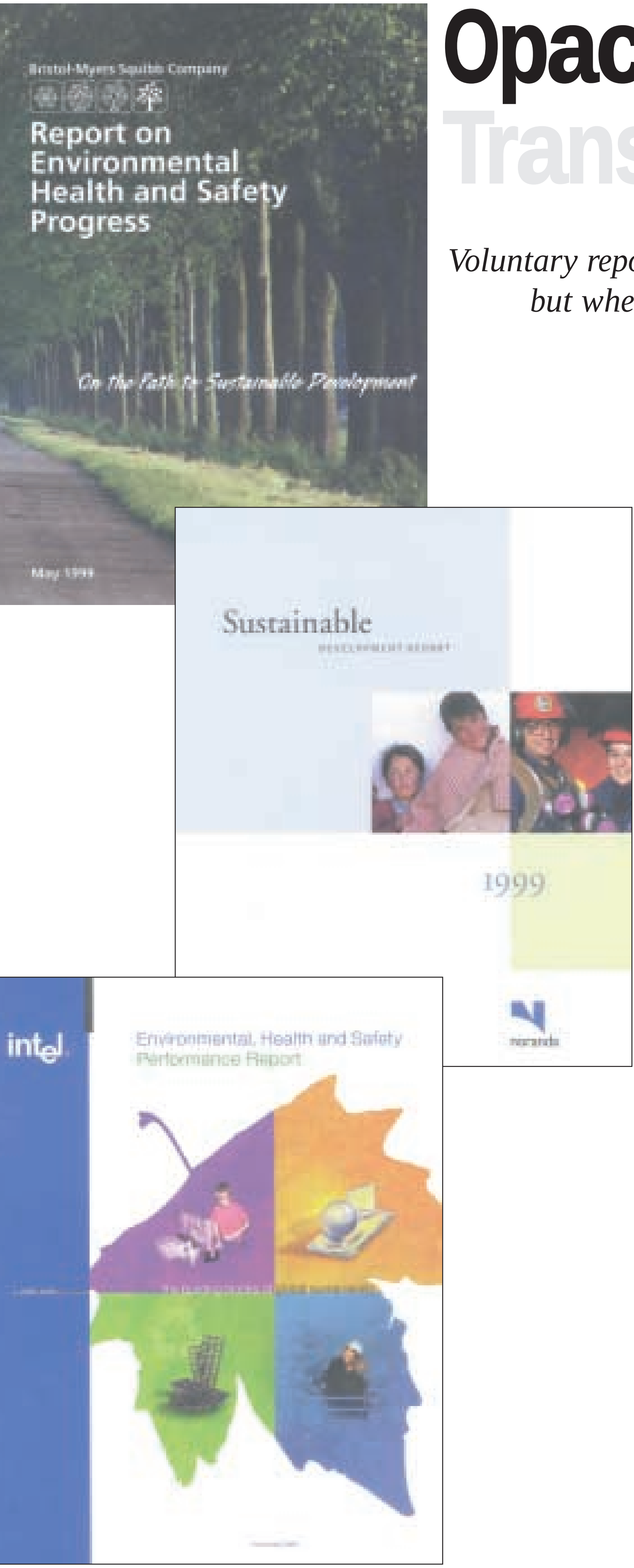
Opacity or Transparency?

By Richard MacLean



Voluntary reporting is becoming more common, but where is it headed and will it matter?

Transitions never occur smoothly and predictably. The early signs become more frequent and increasingly visible to a wider audience and then several events "trigger" a major change — the proverbial paradigm shift. This month I examine the sometimes confusing signals in the growing prominence of corporate social responsibility reporting. Companies claim they are becoming more transparent, and indeed, some are making significant strides. But is this much to-do about nothing or will reporting have a profound impact on environmental programs even at individual manufacturing sites?

Many business managers believe environmental health and safety (EH&S) issues have stabilized, and with the new Republican administration, regulatory relief may even be on the horizon. So, do you, as an environmental professional, kick back and maintain the status quo? Not recommended!

First, even if regulatory relief comes, how favorably these changes will impact your company may depend upon how aggressively these opportunities are pursued. Second, there are inevitably new or even legacy issues such as asbestos that boil up and impact a specific company or an industry sector. Third, there will be enormous pressure to increase business value should the economic climate deteriorate as currently predicted.

What are the emerging environmental issues that will impact not just a company or an industry sector, but all industry and service sectors? Looking over the past thirty years, there have been a number of such trends: toxics use reduction in the wake of the Toxics Release Inventory (TRI); pollution prevention to save costs; International Organization for Standardization (ISO)-type systems to improve environmental management processes; and the forerunner of them all, the wave of command and control regulations that began in the early 1970s.

In my view of emerging trends there is one candidate, broadly described as "corporate social responsibility," that will shape how EH&S departments (and for that matter, the companies themselves) operate in the future. Sustainable development, EH&S performance metrics and corporate disclosure are all components of this overarching movement to hold corporations accountable for more than just financial performance and legal compliance.

These concepts have, of course, been around for more than a decade, but for all practical purposes, they have had little impact on the day-to-day running of EH&S departments. Corporate EH&S organizations in some companies may be rolling up the numbers and issuing public reports, but by and large, it has been business as usual. We may be in for some major changes.

What I sense is that the issue of corporate social responsibility has reached a state where a series of triggering events could carry it over the top to become a powerful force in driving how company

EH&S programs are organized and run at all levels. This transition from talk to serious impact may take another decade, or it could happen in a matter of months. What is the trend toward transparency, and what might be the triggering events?

Just Another Cycle?

From a historical perspective, the corporate social responsibility move-ment is on at least its third cycle. I'm no historian, so the cycle count may be even higher. The first may have been the labor movement at the turn of the last century. Upton Sinclair's *The Jungle* brought on a wave of public awareness and new legislation over working conditions and employee safety.

Child labor was another early social/industry issue both here and abroad. The more recent issues with companies such as Nike are rekindling the concerns of the past.

The next major movement occurred around the time of the Vietnam War when environmental issues and the military/industrial complex were caught up in the activist movement of the time. Some of the better social responsibility evaluations were created during this time.

Before you start thinking, "Oh, this will be just another round of 'we have to be good guys and gals' till this stuff dies down," recognize that each of the aforementioned cycles produced major, permanent changes to how companies conduct business. So, if we are in for "just another cycle," know that it will have profound and permanent impacts.

Little quantitative data exists to track the current social responsibility movement, since accurately monitoring something this broad and loosely defined can be problematic. There is, however, considerable anecdotal evidence of its recent rapid growth on the corporate agenda. For example, in the past year I have seen several of my clients appoint full time, senior professionals to track and manage this area. David Sangis, recently designated to manager, corporate responsibility, at Intel Corp. states, "I see more and more companies devoting key resources to addressing the issue of their company's impact on the surrounding community. At Intel, it has long been a primary driver in the decision-making process."

Probably the best quantifiable indicator is the rapid growth in the number of community reports issued either separately or combined with environmental reports. For example, SustainAbility, a London-based consulting firm, reports that 28 percent of the 200 major, non-reporting companies examined in 1998 have now begun reporting.[1] The November 2000 meeting of the Global Reporting Initiative (GRI) is another indicator — the attendance doubled from the previous year.

Clearly, this is a hot topic right now. But, is there true commitment behind the words? A recent report, *Corporate Spin: The Troubled Teenager Years of Social Reporting* by the New Economics Foundation[2], claims that there are huge discrepancies between what some of the leading companies say they do compared to what they actually do. Another recent report by SustainAbility, *The Global Reporters,* claims that companies are being more transparent but are failing to address the major environmental and social impacts.

So, if the substance behind these corporate reports is shaky, will the attention that is currently being devoted to this issue last? How, for example, would a global recession impact company funding of current efforts? Companies can afford to be good citizens when they are making money, but when they are cutting back, what then?

Where Is This Headed?

I foresee two possible future scenarios: "The Increment Game" and "No Place to Hide."

The Increment Game is the continued evolution of corporate social responsibility efforts, only at an accelerated pace. Even in the face of a global recession, I see this as a sure bet. Backsliding is unlikely because of the rise of instantaneous communication through cheaper computers, environmental monitors, cameras, and of course, the Web. Local problems can receive worldwide attention overnight. A continuous stream of irresponsible corporations being exposed in this new publishing media called the Web will have a powerful influence at two levels: public awareness and growing non-governmental organization interest (translates into political support), and funding (translates into resources to advance the science and the agenda).

With the Incremental Game, the direct impact on all companies will, however, be relatively small. If there is a global recession, poorly managed, short-sighted companies will cut back on these activities, akin to how companies immediately cut back research and development (R&D), travel, free coffee in the cafeteria and training budgets at the slightest downturn in profits. The most successful companies weathering bad economic storms may do just the opposite: strengthen their activities and use their performance to their advantage in niche areas. In effect, they will have learned how to play the game to their competitive advantage.

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On the other hand, No Place to Hide would be a major shift in how companies disclose their activities to the public. It would bring their social performance, including EH&S, to the same level of stakeholder scrutiny as financial performance. In areas as broad as social performance, it will be impossible to issue prescriptive global regulations, but verifiable reporting on key matters of public interest will drive performance in these areas as well as public acceptance of their products and services, and financial investment in their companies.

No Place to Hide sounds like an environmentalist's dream come true. And so it will remain a dream to some (and a nightmare to others) — unless something significant happens, which is the key point. What are the signposts along the way and what might be the triggering events that could lead to No Place to Hide?

The June 2000 Global Reporting Guidelines[3] are generally recognized as the leading template for more uniform and comprehensive reporting. Tracking the adaptation of these guidelines by companies is one indicator, but possibly a misleading one. By its sheer complexity, it is unlikely that anything resembling the GRI will be widely adopted anytime in the foreseeable future.[4] By its admitted flexibility, it will not, in and of itself, lead to uniform cross comparisons among industries or individual companies — the key element necessary to trigger a paradigm shift in how companies operate.

I believe the first signposts will be related to the development of sound technologies to track very specific metrics and the reliable comparison of these across industry sectors. Until these metrics have been developed, the argument will remain that it is not feasible. There have already been a number of efforts along this direction, most notably by the World Business Council for Sustainable Development (WBCSD) Eco-Efficiency Indicators.[5]

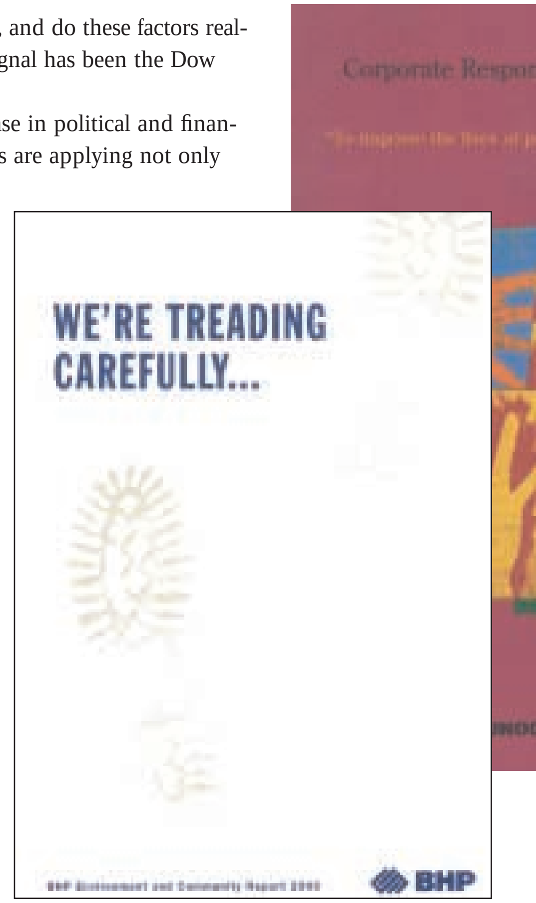
Other efforts are appearing at a surprising pace. For example, Global Responsibility recently incorporated in Denmark to establish a Web-based reporting mechanism for companies.[6] The Measuring Environmental Performance of Industry (MEPI) in Sussex, United Kingdom, has developed an approach for measuring environmental performance based on an evaluation of 280 European companies and 430 production sites in six industrial sectors.[7] Companies are beginning to respond. For example, TEPCO, an electric utility in Japan, published comparative international emission intensities for their operations.[8]

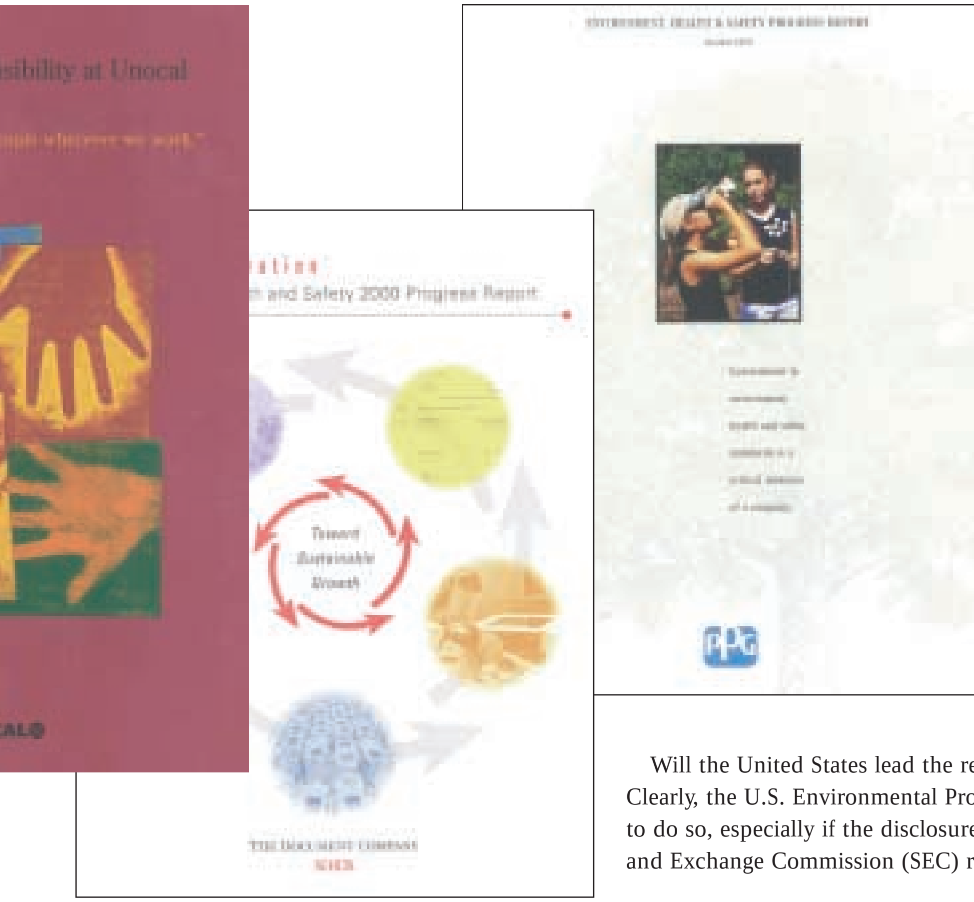
The second group of signposts will come from the financial markets. Can these issues be measured as reliably as financial parameters, and do these factors really have a material impact? The first credible signal has been the Dow Jones Sustainability Index.[9]

A third group of signposts will be an increase in political and financial backing. Major international organizations are applying not only resources but also credibility to the effort and political leverage, particularly in Europe. For example, Europe's Organization for Economic Development (OECD) is supporting research and United Nations Environmental Programme (UNEP) based in Paris is providing backing to the GRI. It is no wonder that the GRI, originally started in Boston, will probably be headquartered in Europe.[10]

Nothing of significance will happen even with a sound underpinning, which demonstrates that it is both feasible and of interest to key stakeholders to track specific social responsibility metrics. A triggering event(s) would be needed to motivate companies or government regulators toward widespread voluntary or mandated disclosure, respectively. I see three possibilities.

Corporate leadership. The ISO 14000 environmental management systems certification program languished in the United States in the early 1990s until Ford





required all suppliers to be either ISO or Responsible Care certified. The impact by this single company has been enormous on the implementation of environmental management systems (EMS). It is now generally recognized that if a company wants to sell certain products internationally, ISO certification is necessary. Thus, a company of similar stature anywhere in the world requiring its suppliers to disclose the eco-efficiency of their products for certain parameters (e.g., greenhouse gas) may have a similar impact on corporate disclosure.

Government leadership. An expansion of regulatory-required public reporting parameters would have a major impact. There is obvious precedent for this in the TRI. Those of you that witnessed the immediate aftermath of this new requirement in the 1986 Superfund Reauthorization Amendment (SARA Title III) will recall its significant impact on site operations, even attracting attention from corporations' board of directors.

Will the United States lead the rest of the world? In my opinion: unlikely. Clearly, the U.S. Environmental Protection Agency (EPA) has significant leverage to do so, especially if the disclosure requirements are linked to the U.S. Securities and Exchange Commission (SEC) regulations. For example, full disclosure over

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remediation and other liabilities would have an enormous impact, but new environmental liability reporting requirements would be a lightning rod for intense industry lobbying.

EPA has been in discussions with SEC for several years, but not surprisingly, nothing has happened. Will the new administration push for non-traditional regulations and sweeten the bitter pill with command and control relief? Clearly, if it is a one sided regulatory relief agenda, the environmentalists will receive their biggest boost since the tenure of former Secretary of Interior James Watt. Maybe the new Republican administration will learn from its past mistakes. The new EPA could surprise us all!

A series of major disasters. These could be either companies "behaving badly," demonstrating to the public that industry cannot be trusted or natural or human-made disasters that draw public attention to a specific issue. Prime candidates are global warming-related issues triggering widespread demands for uniform energy-intensity reporting. Sadly, all too often it is environmental disasters, rather than planning, that provide the impetus for major change. Examples include the 1989 Exxon Valdez oil spill off the Alaskan Coast and the 1984 accidental release of methyl isocyanate from the Union Carbide plant in Bhopal, India.

Conclusions

I do not think it is a question of if, but rather a matter of when more widespread disclosure is either mandated or voluntarily practiced. It may be a combination of headline grabbing news and governing of chief executive officer leadership that triggers serious movement among industry. Movement will not be in the form of the roll-out of the full GRI, but rather the application of a very limited list of metrics applied across industry sectors.

However, even a limited "GRI-Lite" will make a significant impact at all levels. Companies are already starting to hedge their bets by better understanding their current place in the metrics game and by creating senior positions to track this trend. Where does your company stand? If you are not yet, as a minimum, I recommend that you monitor ongoing developments through sources such as corporate environmental reporting, an excellent, web-based free information service.[11]

Even if a critical mass is reached, it is evident that significant movement forward will require the resolution of a number of issues. Most of the attention to date has been on reporting framework and metrics — the "what to report." But, significant improvements will be needed in the "how to report" — the management processes needed to collect, verify and disclose credible information. We'll explore these areas in a future Manager's Notebook article. EP

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For more information circle 125 on card.

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