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Corporate Social Reporting: An analysis of Current Reporting

Neelakshi Misra [1] and Rashmi Agarwal [2+]

[1] Student, Institute of Management Technology, Ghaziabad, Uttar Pradesh, India

[2] Associate Professor, Institute of Management Technology, Ghaziabad, Uttar Pradesh, India

Abstract. The corporate governance norms are predominantly a statutory mandate to increase the confidence of investors by reducing the risk. However, as the companies started to play the role of corporate entities their responsibility as corporate citizens also increased proportionately. This research paper attempts to study the global reporting standards on CSR initiatives which add to the competitive advantage of the corporate in the globalized economies and rate these standards against the otherwise voluntary guidelines suggested by the Government of India time to time. The aim of the research paper is to find the growing importance of Global Reporting for CSR initiatives. The paper also focuses on the initiatives taken by the corporate in their reporting structure and its contents to assist CSR activities and will try to deduct if there is a significant relevance to the investor sentiments towards companies that choose to follow GRI. It also aims to highlight the different kinds of reporting trends that have emerged in the recent years amongst companies which aim at higher transparency and thereby finding the importance of Integrated reporting in CSR effectiveness.

Keywords: sustainability report, global reporting initiatives (GRI), corporate governance, integrated reporting, corporate social responsibility (CSR)

1. Introduction

With the advent of globalization the companies have a competitive edge and hence can operate from anywhere in the world under the new International Trade regime. The governments across the globe are unanimous about the fact that there need to be uniform reporting standards for the corporate world. Initially the companies were asked to submit only financial reports for its investors and later after the incorporation of Corporate Governance norms as a standard practice Annual reports became a mandatory requirement. These assisted investors to know more about the company like about the Directors and the steps taken by the Board to ensure that Corporate Governance norms were being adhered to properly and timely.

Now even after all these measures the world has seen many corporate frauds the countries are trying to bring in more transparency in the system and increase the faith of the investors in the principles of Corporate Governance. GRI guidelines are one such indicators under which corporate around the world are giving solicited relevant information. These guidelines are basically asking companies of different companies to publish a Sustainability report which takes into account the Economic, Social and Governance factors (ESG). Hence various initiatives are taken by certain countries in maintaining a Sustainability Index of companies which are at the fore front of abiding by these disclosures.

Similarly, as companies go global it will be crucial to gain investor confidence not just of the investors of the home country but al[1]so of the other countries where the company wants to be listed in. Integrated Report is a combination of the finances from an Annual Report and the factors of ESG. Thus making the report comprehensive in helping to create investor confidence and promote a robust culture of the organization.

[+] Corresponding author. Tel.: + 91-9811444550;
E-mail address: arashmi@imt.edu

This research paper attempts to bring the current reporting trends across the globe and hence analysis whether these measures are adequate for the fairness, transparency and accountability being sought from the corporate under the new Corporate Governance regime.

2. Trends in Reporting.

2.1 The trend of reporting has shifted from whether to report to how to report.

This includes the basic questions about the appearance of CSR reports. Like Intel's CSR report is an online report mainly as they do not believe in wasting a lot of paper on a report as long as 120 pages which might not be read by all stakeholders instead they have uploaded the same on their website. Not only that but they have also uploaded an Executive summary of the report which is only 16 pages long catering to investors who might not have the time to go through the entire report.

2.2 Separate versus Integrated Report.

Not all companies have started publishing an Integrated report most of the companies still publish an annual report and a different sustainability report. But one of the emerging trends in the corporate world is to publish a holistic report which covers all functions of economic, social and governance matters.

2.3 Frequency of Update.

Earlier there used to be an annual report published once a year but now some companies publish their reports quarterly or half yearly.

2.4 Not-profit Reporting.

There is an increasing trend of NGO's coming up with their sustainability reports. NGO's are also committed to transparency in spite of their inherent social and environmental nature. With the release of GRI NGO Sector Supplement probably this would be a increasing trend.

2.5 Use of Social Media.

Organizations have understood that in today's technology savvy world it is better to interact with their investors on a bigger and wider platform so social tools like Blogs of organizations have come into picture. One such company which uses a blog to interact with its investors on these CSR issues is Intel. There has been an increase in more Facebook pages, Tweets from company's accounts to help engage the stakeholders in reporting issues.

2.6 Issue Based Reports.

More and more companies have started to publish sustainability reports which are more region or issue based. Example L'Oreal issued a report on Diversity. SAB Miller issued a report on economic impact in South Africa and Nestle issued a report on Water Management and Nutrition and Diet.

3. Global Reporting Initiative- GRI

GRI is an organization which provides a framework for sustainability reporting that can be adopted by all types of organizations in all countries. The GRI was formed by the United States based non-profit Coalition for Environmentally Responsible Economies (CERES) and Tellus Institute, with the support of the United Nations Environment Programme (UNEP) in 1997.

The G3 guidelines are the cornerstone of GRI's sustainability reporting framework. These guidelines were published in 2006. However, after the publishing of these guidelines an improvement was suggested by the board of directors and the new upgraded version was published recently in 2011, these are the G3.1 guidelines. The guidelines are divided into two parts:

Part 1- Reporting Principles and Guidance:

- Principles to define report content are: Materiality, Stakeholder Inclusiveness, Sustainability Context and Completeness.
- Principles to define report quality: Balance, Comparability, Accuracy, Timeliness, Clarity and Reliability.

- Reporting Guidance for Boundary Setting

Part 2- Standard Disclosure

- Management Approach
- Performance Approach

One of the main objectives of the research paper was to find out the importance of the GRI guidelines on the investor sentiments. The guidelines have categorically formed its framework in such a way that it benefits investors as relevant and authentic data is available to them. If each of the contents are taken into account one by one it can be seen that the entire gamut of information that the guidelines make a company comply to are indeed for the better understanding of an organizations objectives and future goals. The aspect of Materiality talks about the relevant information that a company should provide that can influence the investor's choice. They are the reasonably important indicators that reflect the organization's economic, social and environmental impact, their overall mission and competitive strategy. Shareholder's Inclusiveness, Sustainability context, balance, comparability and all other factors help define the quantity and quality of an organization in the eye of the investors.

GRI has started an initiative called **'Report or Explain'** wherein the aim is that maximum number of companies worldwide should Report according to the GRI G3 guidelines and if they do not then those respective companies should at least Explain as to why they are not opting to Report.

A supply chain is a system of organizations, people, technology, activities, information and resources involved in moving a product or service from supplier to customer. Supply chain activities transform natural resources, raw materials and components into a finished product that is delivered to the end customer. In sophisticated supply chain systems, used products may re-enter the supply chain at any point where residual value is recyclable.

Sustainable Supply Chain is basically affecting an organization's logistics network in terms of environmental, social issues. GRI guidelines expect an organization to publish its sustainability report keeping in mind to disclose sufficient information about their company's objective in terms social and environmental factors. Now since supply chain forms a crucial part of most of the businesses around the world corporate buying practices affect the supplier's ability to improve the quality of the product. GRI guidelines link MNE's specific product requirements based on their company's policies for different products (like for some products the company might adopt the 'green' or eco-friendly way).

Suppliers to these Large Multinational Enterprises come from all parts of the world including the emerging economies. Not all countries from the emerging economies have started adhering to the G3 guidelines of GRI. On the different kinds of Sustainability Indices most of the weightage is from the Industries sector which has maximum amount of Supply Chain Issues.

4. Sustainability Report:

Corporate Governance inculcates the norms and guidelines given to the corporate world for the protection, enhancement, maintenance and safeguard of the shareholder's wealth. Its main objective is that companies should follow true and fair practices in disclosing relevant information to their investors or shareholders. The principle of Corporate Governance revolves mainly around transparency, accountability and fairness.

Clause 49 of the Listing Agreement has certain mandatory and non-mandatory disclosures. Providing the annual report by companies falls under the mandatory disclosure but in India the concept of submitting a Sustainability report has not yet been introduced.

A sustainability report is basically a method of disclosing and measuring sustainability data with Performance Indicators and Management Disclosures. It covers three main areas namely Economical, Social and Environmental hence providing a link between financial and non-financial performance.

The idea of the report is how an organization contributes, or aims to contribute in the future, to the improvement or deterioration of economic, environmental and social conditions, developments, and trends at the local, regional or global level. This concept is most articulate in the environmental arena in terms of the global limits on resource use and pollution levels. However, it can also be relevant with respect to social and economic and sustainable developmental goals. The relationship between sustainability and organizational strategy should be made clear as also the context within which performance is reported.

From the above explanation of what Sustainability report is and its basic contents it can be concluded that the need for establishing a Sustainability report is to gain confidence of the investors not just in their own respective country but also gain global investor confidence. As the report not only discusses the financial aspects but also explains the company's growth plans in terms of social, economical and environmental perspective it gives a holistic view of an organization which might be difficult to analyse from just an annual report. Sustainability index is a share index of companies that are managed in a way that it respects the environment and the future interests of society and does not obtain profits immediately. Sustainability indices provide objective benchmarks for financial products that are linked to economic, environmental and social criteria.

They offer both, a performance baseline as well as an investment universe, for the increasing number of mutual funds, certificates, separate accounts and other investment vehicles which are based on the concept of sustainability. By identifying companies that meet higher sustainability standards, sustainability indices have the potential to elevate the importance of environmental, social and governance issues and demonstrate the link between better sustainability performance and investment outcomes.

5. Integrated Reporting:

Earlier only Financial Reports were published by organizations for the investors on a yearly or quarterly basis all around the world. Later, Annual Reports were inculcated which did not only contain information regarding the financial side of a company's decision making but also included information about valuation of company's asset, changing in accounting methods and disclosure about Corporate Governance which talks about the Board's composition and Independent Directors etc. This makes it a more comprehensive report and gives a lot of insights to the investors about the company's objectives and its principles and moral acceptance.

Integrated Reporting can be a successful attempt to encourage good Corporate Governance practices but this will be possible only if certain standardisation is brought in to the type of disclosures that organizations and companies make. Since financial reporting is already more or less standardised all around the world by GAAP and the financial institutions of the respective companies the G3 guidelines of GRI can be formed as the basis of effective ESG disclosures. Integrated Reporting can be very useful at the time of Mergers & Acquisitions too specially when it takes place between companies from different countries. Since all countries follow Corporate Governance norms laid down by their respective country norms under set committees having an integrated report will only help assist in tasks like M&A. It gives a clear understanding of a company's vision and mission not only in terms of where it wants to be but also how it will reach its objectives. In a competitive world every company tries to have a competitive edge over the other and gaining investor confidence by revealing information like the amount of green house gas a company uses or its carbon footprint or the kinds of efforts that it undertakes to fulfil its corporate social responsibility only helps reflect the values of an organization.

Intel takes CSR very seriously and realises the importance of an Integrated Report. They believe that through their Integrated Report they can keep the stakeholders engaged. Intel's CSR reports are also a landmark in themselves as they try and cover as much ground as possible. Intel's ninth CSR Report, which spans over 100 pages and covers a comprehensive line up of initiatives touching corporate governance and ethics, environmental investments, supply chain accounting, workplace development, educational benefits, and community outreach. Intel's report emphasized that it was a combination of extensive use of social media and a highly interactive PDF report.

During the recent meeting with regards to GRI and the future of Integrated Reporting a need for a consensus-driven global standard that addresses the wide inconsistency of the present guidelines, application levels as well as relevance of core issues was indentified. Integrated Reporting is a comprehensive reporting of all functions of an organization including the corporate social responsibility or the sustainability reporting. It makes it more convenient for companies to know about one another which were not possible earlier. There is a shift in integrated corporate responsibility in business today. Companies realise that there investors are increasingly aware of the consequences or impacts of ill practices used by companies so publishing an integrated report instead of just an annual report helps in gaining trust of its investors for the company and increased faith from the investors towards the company.

6. Conclusion and Recommendations.

Following the aftermath of the financial crisis like Enron, WorldCom, Molex, etc globally and a financial fiasco like Satyam in India itself it had become almost a priority to inculcate certain principles and bodies that would take care of issues like this adequately in light to bring back the investor confidence in the corporate world. Various important committees on Corporate Governance were formed following these disasters like Sarbanes-Oxley Act, the Cadbury committee in the UK, the Narayan Murthy committee under SEBI and others. This is one of the strong reasons as to why just number crunching and financial sustainability is not enough. In the light of all these the importance of Corporate Governance was realised by the whole world.

From the above facts and analysis presented, following can be the major conclusions that came around towards the end of this research paper:

- Various kinds of Sustainability Indices assist investors to consciously choose the right company with long term benefits arising from strong governance and good management.
- Sustainability indices help creates a difference between just governance and good governance. All companies follow the governance norms laid down by respective government bodies but only few take an extra step to publish a sustainability report promoting a robust culture.
- After understanding the GRI guidelines a link could be made stating that the G3 guidelines can really help inculcate the importance of ESG reporting via Supply chain sustainability.
- Sustainability reporting is increasingly becoming a part of a company's strategic planning rather than a philanthropic outcome. Companies have begun to realise that publishing a Sustainable report is a tool to gain competitive edge in the market.

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