



Social, Ethical and Environmental Disclosure – An Introduction to Current Trends and Thoughts for the Future

By Lauren Darby

Ten years ago, environmental reporting was considered to be at the forefront of business disclosure developments. Now, companies are being pressured to report in terms of sustainable development and on related broader social and environmental impacts and a number of foci have developed dependent on business sector pressures, preferences and needs. Many terms are used to describe the different forms of disclosure used and so for the purpose of this comment and analysis social, ethical and environmental disclosure (SEED) will be used to encompass all the variables.

SEED has been evolving and expanding over the last decade, with the pace quickening more recently. Since the mid 1990s there have been a number of changes and ongoing trends in the type and quantity of SEED made by companies. It is receiving increasing levels of attention and interest from business, government, the media and society as a whole and events in the USA involving allegations and incidence of fraud, for example the Enron debacle, have compounded this. It seems there is a move towards broader and more integrated disclosure due in part to this general erosion of trust in big business and pressures from stakeholders to improve transparency.

Current commentary on SEED expresses concern about the scope and quality of disclosures made and the extent of variance in type, length, rigour and verification of reports, and herein lies a major problem and the source of most of the ongoing debate about SEED. Another key issue is whether company disclosures relating to social, ethical and environmental issues should be a voluntary or mandatory requirement, and if so, what should be included. It should be noted that over the last couple of years there has been improvement in the quality and quantity of SEED. In the year 2001-2002, 50 of the FTSE250 companies reported for the first time, compared with only 18 new reporters in the previous year, with 103 reporting in total and 95 of the reports including ethical and social information, (Directions 2, 2002). If this trend is sustained it should lead to positive changes in the quality and quantity of SEED in the coming years.

In the UK, the government has been putting increasing pressure on companies in terms of improving disclosure, by, for example, Tony Blair challenging the top 350 companies to

produce social and environmental reports by the end of 2001, (of which only a quarter did so). In September 1999, the Combined Code, commonly known as the Turnbull Report was issued, to which all UK listed companies must comply and the Pensions Review, effective as of July 2000, called for institutional investors to consider their position on socially responsible investment. More recently, the Modernising Company Law White Paper was released in July 2002, which sets out proposed changes to the UK Companies Act, to be expected around 2007 and includes new responsibilities for directors of the top 1000 companies.

There have also been pressures from other sources in the UK and in June 2002 a coalition of non-government organisations (NGOs) and campaign groups joined up with Linda Perham, MP, to put forward a Corporate Responsibility Bill.

On a wider scale, in 2001, the European Commission published a Green Paper on Corporate Social Responsibility (CSR) (European Commission, 2001) and launched a multi-stakeholder forum for CSR in 2002. At this stage, it appears that neither the European Commission or the UK is prepared to make SEED a mandatory requirement, however, the Commission intends to develop new thinking on common CSR standards across Europe and to promote better business practice.

Even though SEED is purported to be improving in both quality and quantity, there are a number of concerns about the reality of the situation and future directions and prospects. There are issues around how seriously SEED is actually taken by accounting professionals as it is often viewed as being unregulated, misleading, and not even part of accounting. Additionally, there has been concern expressed that nobody really knows what SEED is actually for and that companies are just doing it because everyone else is. There appears to be little attention given to what the reports actually say.

A report published by Salterbaxter and Context (Directions 2, 2002) expresses concern and questions whether corporate social responsibility (and reporting) represents a 'real change in business sentiment or just a passing fad, a fashionable flirtation with doing good?' There is concern that the SEED honeymoon will end, the gap between rhetoric and reality will be realised and companies will have to improve the rigour of their reporting if they are to protect themselves from the fallout of this.

Verification of company disclosures and its quality are additional concerns that have been aired. In response to this, the Institute for Social and Ethical Accountability has formulated the AI000 standard for social reporting and the Global Reporting Initiative has a mission to raise the standard of sustainability reporting to correspond with that of financial reporting. To achieve this, the GRI has developed a core set of metrics which are sector specific and applicable to all business, and has released a template for SEED

As already mentioned, there is an ongoing debate as to whether the voluntary or mandatory option is best way forward for SEED with a number of arguments both for and against and powerful advocates on each side. This may explain the European Union and UK governments' reluctance to go ahead and make reporting requirements mandatory. However, there is general agreement that increased market demand is needed to take the SRI and disclosure agenda forward and to raise the quality of disclosure. There is also widespread assent that the content of SEE reports is inadequate and of insufficient quality to satisfy investor needs.

In summary, SEED is currently undergoing a period of increased interest, growth and success, but with this comes additional concerns. It has reached the stage where the production of reports is no longer enough, with closer attention being given to what is actually said, standards and appropriate verification. There is also increased pressure on those companies that currently do not produce any SEED to change their ways, with the ever present threat of mandatory reporting requirements if this does not occur. Stakeholders are becoming more demanding and critical and in the current climate of increasing mistrust and concerns about the risks associated with business, SEED is set to increase in both volume and sophistication. However, if appropriate controls are not put in place there is the worrying possibility that stakeholder trust will be further eroded and SEED will struggle for acceptance and survival.

References

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- European Commission (2001) *Promoting a European Framework for Corporate Social Responsibility: Green Paper*. The Office for Official Publications of the European Communities, Luxembourg.