

Reporting from beyond the pale?

As more and more companies feel obliged to produce environmental and social reports, it's inevitable that controversial companies will take the reporting plunge. **Paul Scott** reviews the first reports from two – BAT and McDonald's

Shell earned wide acclaim for addressing its major environmental and social issues and impacts through its 'People, Planet and Profit' reporting programme, instigated following the 1995 Brent Spar debacle. UK arms manufacturer BAe, on the other hand, avoided biting the bullet when it published its first corporate social responsibility (CSR) review in 2002, as it largely avoided addressing the major issues surrounding weapons manufacture and supply.

External reaction to such reports reflects a wider issue surrounding corporate social responsibility and socially responsible investment (SRI) generally: to what extent can controversial companies establish social and environmental legitimacy? Can reports and management initiatives earn them a moral licence to operate?

In the field of SRI – certainly in Europe – the thinking is moving beyond 'screening', whereby companies are automatically disqualified from indexes such as FTSE4Good or from fund investment by virtue of their business sector – such as arms, tobacco, alcohol or nuclear power. Instead, 'engagement' is proving more popular, whereby fund managers discuss issues of social or environmental concern with companies, encouraging visible improvement, and pushing each company towards pre-eminence among its peers – the 'best in class'.

Two recent reports illustrate the issues involved.

British American Tobacco (BAT) has embarked on one of the most ambitious reporting programmes attempted by any company¹. By the end of 2002 it will have issued separate social reports from its operations in 14 countries, with a further 14 countries to report in 2003.

The first four reports, from Sri Lanka, South Africa, Malaysia and the UK corporate centre are impressive indeed. They are lengthy and detailed, follow both AA1000 and Global Reporting Initiative formats, were

developed using independently facilitated stakeholder dialogue and were independently verified. The underlying methodology and issue mapping may be seen as representing best practice. Reports from a further five countries are already available.

The company is all too aware of its negative image, and addresses the issues directly – believing it can embed the CSR agenda within its operations. In a foreword to the UK report, chairman Martin Broughton writes: "we see it as entirely possible to continue being a thriving competitive group of companies building sustainable shareholder value and living by the principles of corporate social responsibility".

The company's critics were quick off the mark, with anti-smoking lobby group Action on Smoking and Health (ASH) releasing an alternative BAT social report even before the company itself had released its first main report². ASH's version enumerates many issues – such as the scale of death arising from tobacco sales – that it claim should have been addressed by the company's reports.

In a statement, Clive Bates, director of ASH said "it's like the mafia godfather going to church on Sunday and putting a thousand dollars on the collection plate – it's what they do during the week that matters".

ASH refused to take part in the stakeholder dialogue which the company instituted as part of the reporting process. ASH believed it would take place on the company's terms, allowing "BAT to appropriate our time in a process defined by them, for their benefit, not ours".

As anti-smoking campaigners challenge a producer of over 800 billion cigarettes annually, it's clear that meaningful dialogue between ASH and BAT will remain off the agenda for the foreseeable future. The real battle will be waged among the onlookers – the company stakeholders and the financial markets.

McDonald's Corporation issued its first Social Responsibility Report in April this year³. Far less ambitious than any of the BAT reports, it broaches no challenging issues – such as a lack of union recognition within its restaurants – the overall tone is entirely positive and it isn't externally verified.



An unsustainable habit?

Nevertheless, one might have welcomed a report from such a large company, at least as a first step.

Environmentalist Paul Hawken, author of *The Ecology of Commerce* and *Natural Capitalism*, certainly didn't. Writing on SustainableBusiness.com, he gave it a devastating broadside: "The [report] is a low water mark for the concept of sustainability and the promise of corporate social responsibility. It is a mélange of homilies, generalities, and soft assurances that do not provide hard metrics of the company, its activities, or its impacts on society and the environment". Hawken refers to a list of issues he feels the report does not address, providing ammunition for corporate critics.⁴

Of course, such companies are used to criticism and don't expect an easy ride. And if they had not reported, they would be accused of a lack of openness – they're damned if they do and damned if they don't. It will be interesting to follow the reporting programmes of these two companies, to see whether criticism is taken on board and detractors' attitudes soften.

This still leaves the rest of us with a choice: to reject an unloved company or sector *per se*, or to see 'engagement' as a method of achieving positive results, however limited. The European SRI establishment appears to be following the second route. The jury's still out.

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1 See www.bat.com

2 www.ash.org.uk

3 www.mcdonalds.com/corporate/social/report

4 www.foodfirst.org/media/press/2002/mcdonaldsissues.html