The contrarian

Reporting contradictions

Does tobacco always deserve a bad press?

Praising so-called evil companies for good corporate responsibility reporting is better than bashing them for what they are, argues Jon Entine

In these precarious economic times, there is one raging bull market: a stampede in producing sustainability and corporate responsibility reports. Most of the world's top companies now issue non-financial statements, up from almost zero a decade ago. For companies, they are close to being no-risk, no-lose propositions, having historically been impression-management documents, not evaluations of actual performance.

Do they offer any real value to stakeholders or are they just propaganda? Consider this quote from one multinational that has produced award-winning social reports annually since 2001: "We offer an open mind, knowledge of our product and its science, support for balanced regulation, and over a century's experience of operating in diverse cultures."

The author is a long-time corporate affairs executive for British American Tobacco. BAT, like its brethren in the cancer-stick industry, makes a killer product whose only redeeming value is generating huge profits.

It's the kind of company NGO activists label as evil. They often dismiss as greenwashing sustainability reports from companies they judge as sinful – tobacco firms, military contractors, nuclear energy producers, and even wine and beer makers. On principle, many NGOs refuse to engage with such companies on the grounds they have no moral right to exist.

However, I'm here to praise so-called evil companies not to bury them. We have to ask ourselves hard questions: what purpose do these reports serve and do they do their job? And which companies are doing the heavy lifting when it comes to candidly reporting the social impact of their operations?

The first social reports were clearly designed to mitigate risk and polish reputations. That strategy worked for BAT, as it was added to the Dow Jones Sustainability Index within a year of releasing its first report. The DJSI uses a "best in sector" standard to evaluate prospective members. By reasonable measure, BAT's performance within its industry does match the polished presentation of its reports.

The sustainability community is split between "best practice" adherents, such as the DJSI, and "sin screen" absolutists, including the designers of FTSE4Good, which excludes BAT. This rewards companies based on an absolute, if arbitrary, ranking of sustainability; the DJSI rewards comparative behaviour and improvement. In effect, they pose different questions: whether we want to feel good or do good.

Absolute standards

It appears we are gradually moving towards the "do good" standard. Partly in reaction to the first generation of social reports, which were long on self-reported anecdotes and short on verifiable and contextually relevant achievements, newer reports are being judged by a higher standard. In the late 1990s, the Global Reporting Initiative established the first harmonised reporting framework.

But mere guidelines were not enough. Two complementary and sometimes competing verification standards have since evolved: the accounting industry's International Standard on Assurance Engagements (now ISAE 3000) and AccountAbility's AA1000 Assurance Standards, which focuses more narrowly on sustainability.

Another independent monitoring system is in the pipeline. In June, Prakash Sethi, director of the International Center for Corporate Accountability, is rolling out the first in-depth framework for analysing corporate social reports. Modelled loosely on the GAAP standards used in financial reports, the Sethi CSR Monitor will compare against one another the social reports of more than 1,200 companies.

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Lo and behold! Using these standards and frameworks, the messier industries, from tobacco to mining to oil production, have consistently ranked among the best companies for disclosing what they do, addressing sustainability and providing independent assurance.

Shouldn't we succour a system that encourages companies with the greatest negative impact on sustainability to improve, and prove that they are improving, rather than mock their efforts outright?

To the critics of messy industries, who refuse to engage "sinful" corporations in dialogue, I say get over it. Cigarettes and alcohol, arms and other military supplies, and oil, coal and nuclear energy – powering our cars, aeroplanes and iPhones – are here to stay. The more pressure companies feel to report and independently verify their business activities, the more likely we are to achieve the social ends the well-meaning so ardently advocate. ■

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