



**POLICY BRIEFING PAPER  
AUGUST 2005**

# Corporate Social Responsibility (CSR) Reporting

## **THE BACKGROUND**

70% of the FTSE 100 now supplement their traditional financial reporting activities by issuing separate reports which detail their achievements in corporate social responsibility (CSR) issues. These include organisations' impact on the environment and issues such as health and safety, workforce diversity, supply chain management, job creation and innovation. However, the proportion of CSR reporters falls away sharply outside the FTSE 100. Worldwide, there are still only 1,500 to 2,000 companies producing non-financial reports.

The introduction of the Operating and Financial Review (OFR) statement in the UK means that environmental and social disclosures should be made in the annual report and accounts of listed companies when they are significant to shareholders' understanding of the business. However, OFR disclosures are likely to be limited in extent and annual reports themselves are targeted at only a small proportion of those who have a legitimate interest in the wider accountability of large organisations.

## **THE ISSUE**

CSR / sustainability reporting is often seen as an issue which only concerns large national and multi-national organisations. Public sector bodies and small companies have yet to fully appreciate the benefits of non-financial reporting. The main inhibiting factor is the cost perceived to be involved in producing a sustainability report. The message that sustainability reports can be a source of competitive advantage has not been fully understood and work needs to take place to demonstrate the benefits. The reality is that sustainability reporting is a good index of how non-financial risks are being managed, an important aspect of overall corporate governance.

Although over the last 10 years there has been a notable increase in the quality of disclosure, there are some challenges which still need to be addressed, namely the need for improvements in coverage, standards and credibility of non-financial reports.

## **ACCA'S INVOLVEMENT**

ACCA is the largest and fastest growing global professional accountancy body, with over 105,000 members and 245,000 students in 170 countries. ACCA has been actively involved with the unfolding debate on corporate social and environmental responsibility since 1990. We promote transparency and best practice. We aim to help businesses and organisations realise the growing importance of sustainability to them. ACCA champions the extension of corporate reporting to include the social and environmental aspects of a business - investors and other stakeholders are entitled to know the wider impact of an organisation's activities. ACCA supports sustainability reporting awards in over 20 countries, including Australia and New Zealand, Hong Kong, Malaysia, Pakistan, Singapore, South Africa, Sri Lanka, Canada and the US.

## **ACCA'S RECOMMENDATIONS**

### **Focus on core business issues**

Many reports fail to address important issues such as sector-specific impacts, dependence on fossil fuels, human rights and labour issues. Addressing these issues will result in greater transparency.

### **Common standards need to be adopted more widely in order for meaningful comparisons to be made**

Improvements in quantity and quality of reports could be achieved through the use of globally applicable guidelines such as the Global Reporting Initiative (GRI). A globally common framework enables meaningful comparisons to be made more easily. Effective guidance and global standards will also help make sustainability reporting a realistic target for small and medium-sized enterprises.

### **External assurance (third party / independent validation) is necessary to ensure credibility**

One of the most important elements for increasing the credibility and perceived status of non-financial reporting is the inclusion of an external assurance statement. Only around 40% of non-financial reports currently include external assurance, despite its increasing importance due to more developed reporting approaches and increasingly sophisticated demands of report-users.

### **Increased communication with stakeholders**

Many reports do not show evidence of adequate stakeholder dialogue. In particular, national and local government, finance communities and NGOs need to be targeted. Reports need to focus on issues which are important to the communities in which organisations work, not just on corporate / organisation priorities.

### **Governments should do more to encourage wider take-up of CSR reporting**

Without greater engagement and leadership on the part of Government, voluntary reporting of CSR performance will continue to be limited to a relatively few high profile multi-nationals and an even smaller number of “values based” organisations, such as social entrepreneurs and NGOs.

The UK Government can play an instrumental role in stimulating a culture of reporting and providing a national framework by establishing a high level Task Force – similar to the Sustainable Procurement Task Force set up recently under the chairmanship of Sir Gerald Simms – to review the available evidence. The Task Force should formulate a series of initiatives, designed to:

- raise the awareness of the relevance of CSR reporting in the financial community
- encourage greater take-up of CSR reporting by listed companies outside the FTSE 350
- explore the potential for limited scope forms of CSR reporting for the unlisted, SME and not-for-profit communities
- develop forms of CSR reporting suitable for the range of public sector entities over which the Government has influence.