Sustainability, accountability and corporate governance: Exploring multinationals' reporting practices

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SUSTAINABILITY, ACCOUNTABILITY AND CORPORATE GOVERNANCE: EXPLORING MULTINATIONALS' REPORTING PRACTICES

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ABSTRACT

Recent years have seen a rapid increase in accountability pressures on particularly large global companies. The increased call for transparency comes from two different angles, which show some (potential) convergence in terms of topics and audiences: accountability requirements in the context of corporate governance, which expand to staff-related, ethical aspects; and sustainability reporting that has broadened from environment only to social and financial issues. This article examines to what extent and how current sustainability reporting of Fortune Global 250 companies incorporates corporate governance aspects. Many multinationals, particularly in Europe and Japan, have started to pay attention to board supervision and structuring of sustainability responsibilities, to compliance, ethics and external verification. While detailed disclosures are not yet common, some notable practices can be found. Underlying dilemmas and complexities for managers in dealing with accountability to shareholders and stakeholders, and the role of auditors, are indicated.

KEY WORDS

corporate governance; sustainability; reporting; multinationals; Fortune Global 250; corporate social responsibility

SUSTAINABILITY, ACCOUNTABILITY AND CORPORATE GOVERNANCE: EXPLORING MULTINATIONALS' REPORTING PRACTICES

INTRODUCTION

The past few years have seen a rapid increase in accountability pressures on companies. Financial crises in Asia and elsewhere, accounting and remuneration scandals, and suspicion about the social and environmental implications of business have led to growing demand for transparency about corporate behaviour on a whole range of issues. Especially for multinational enterprises, confronted with a multitude of requests from shareholders and other stakeholders in different markets with frequently varying regulations and governance systems, the situation has become rather complex in recent years.

Interestingly, the increased call for transparency comes from two different angles, which most recently have started to show some overlap. On the one hand, accountability requirements in the context of corporate governance have expanded, and are starting to sometimes cover staff-related, ethical aspects (such as codes) as well. On the other hand, separate from the more traditional governance framework, sustainability reporting has emerged. While originally focused primarily on the environment, the scope has broadened to frequently also include ethical/social issues, usually employee and community matters, the organisational structure in place to control all this, and financial aspects. This means that these two rather distinct channels of accountability not only show some (potential) convergence in terms of topics, but also in targeting broader audiences.

This article takes the second angle as starting point and explores to what extent current sustainability reporting of multinationals incorporates corporate governance aspects. Sustainability reporting is defined broadly and includes ethics, environmental and/or social issues (sometimes this is also labelled 'corporate social responsibility' or 'triple bottom line' (People, Planet, Profit) reporting). The analysis focuses not just on the inclusion of corporate governance sections in reports. It also, and more importantly, examines whether companies pay attention to board supervision in relation to sustainability, codes of ethics and complaints procedures, and auditor involvement in assessing the reliability of sustainability reporting.

Following Rossouw (2005a, p. 37), the paper thus covers "the ethics of corporate governance" as well as the corporate "governance of ethics/sustainability", the way in which companies and their managers ensure that particular standards and norms in these areas are designed, structured and implemented (cf. Rossouw, 2005b). This builds on a view of corporate governance as being "geared toward ensuring that companies take responsibility for directing and controlling their affairs in a manner that is fair to their stakeholders" (Rossouw, 2005a, p. 32). It should be noted that the view of what 'stakeholders' are varies between institutional contexts, with some having a broad view of constituents while others focus more exclusively on shareholders (see also Bedicks and Arruda, 2005; Demise, 2005; Kimber and Lipton, 2005; Ryan, 2005; Wieland, 2005). This is to some extent different from the stakeholder literature, where shareholders are generally seen as one (but certainly not the only) stakeholder group (e.g. Buysse and Verbeke, 2003; Clarkson, 1995; Donaldson and Preston, 1995; Jones et al., 2002).

The reports analysed for the purpose of this paper are those published by the Fortune Global 250, a set of large, visible companies that operate worldwide, thus reflecting a variety of practices across different countries. Before moving to this empirical information, the situation with regard to sustainability and corporate governance, as converging accountability efforts, is briefly indicated. Evidence from multinationals' sustainability reporting is subsequently used to elaborate on these transparency efforts and present notable practices. The final section draws conclusions about the current state and reflects upon possibilities and limitations regarding future corporate accountability on non-financial issues.

SUSTAINABILITY AND GOVERNANCE: CONVERGING ACCOUNTABILITY EFFORTS?

Generally speaking, the corporate governance debate has merely focused on internal mechanisms and on disclosure and transparency with an eye to the suppliers of finance in the first place (e.g. Daily et al., 2003; Dalton and Dalton, 2005; Monks and Minow, 2004; Shleifer and Vishny, 1997). This does not mean that the importance of stakeholders in general is denied – international codes such as those of the OECD (2004) and the International Corporate Governance Network (2003) refer to them, and accountability is also seen in that perspective (Luo, 2005). But even in such cases, a rather limited set of stakeholders is usually mentioned explicitly (in addition to shareholders): especially employees and sometimes also managers (cf. Aguilera and Jackson, 2003).

Recent attempts to strengthen corporate governance and accountability following scandals such as Enron, WorldCom, Ahold and Parmalat, embodied most notably in the Sarbanes-Oxley act, have also focused mostly on internal mechanisms, regarding boards, managers, auditors, control and risk aspects, particularly to increase shareholder insight in and influence on corporate behaviour on the whole range of business matters. It has included ethical aspects related to remuneration, managerial and employee behaviour, and complaints mechanisms.

This influence of corporate governance reforms on business ethics in companies has received some recent academic interest as well (Rossouw, 2005a). In line with the more general literature on corporate governance, this has involved comparative analyses on regulatory and systems developments in different regions (Bedicks and Arruda, 2005; Demise, 2005; Kimber and Lipton, 2005; Rossouw, 2005b; Ryan, 2005; Wieland, 2005). However, as already indicated in the introduction, it is not only the "ethics of corporate governance" but also the governance of ethics broadly defined (including sustainability) to which attention is being paid (Rossouw, 2005a). In this regard, a broader notion of corporate governance in relation to the whole range of stakeholder (including shareholder) demands seems to be emerging.

Largely separate from the (more traditional) approach to accountability in the context of corporate governance, sustainability reporting has developed. This started approximately fifteen years ago with the publication of environmental reports, in some cases because incidents or events focused public attention on particular companies/sectors (Kolk, 2005a). Although a number of governments has stimulated this kind of disclosure directly or indirectly (see Kolk, 2003, 2005b for an overview), corporate sustainability reporting has been a mostly voluntary activity oriented at giving account of the societal and environmental implications of doing business to external stakeholders.[1] Over the years, it has broadened from reporting on the environment only to include social and financial aspects as well ('people, planet, profit'); attention to the organisation of, and the performance in these areas has also grown (cf. GRI, 2002). Likewise, the number of constituencies and potential readers of sustainability reports has widened, covering external and internal stakeholders, including shareholders. Sometimes also labelled 'corporate social responsibility' (CSR) reporting, sustainability reporting (the term used in this paper) is perceived as fulfilling a role in how companies account for their CSR, a concept that is seen to embody companies' economic, legal, ethical and philanthropic responsibilities towards society in general and their range of stakeholders in particular (Carroll, 1999; Whetten et al., 2002).

With the developments described above, sustainability and corporate governance imply accountability efforts that seem to be converging. Interestingly, it is in the framework of sustainability reporting that questions have been raised about the nature of accountability and the notion of transparency (cf. Livesey and Kearins, 2002). In the accounting literature, a discussion has taken place about the implications for the contract between company and society, and also between companies and auditors as far as environmental auditing/verification is concerned (Power, 1991). Some attention has been paid as well to the debate on the extent to which sustainability reporting and auditing/verification really helps to improve accountability and address stakeholder concerns (Ball et al, 2000; Dierkes and Antal, 1985; Gray et al., 1988; Owen et al., 2000).

These insights seem to be relevant when the link is made between sustainability and corporate governance. This particularly applies to the contribution of Michael Power (1991), who adapted the original principal-agent relationships to include accountability to society as a result of the environment. As reproduced in figure 1, such an 'environmental agency model' would have society/nature as the 'principal' and the (polluting) company as the 'agent', with an important role for the (environmental) auditor.

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To some extent, this figure also points at the complexities for managers in dealing with accountability to all their 'principals', not only shareholders (capital providers) but also the other stakeholders (society in general). It is here where reporting on corporate governance and sustainability seem to merge, most notably when companies start to report on both aspects in one report, when issues become related because of these combined accountability efforts or due to the fact that corporate governance starts to include ethical (or social/environmental) concerns and sustainability covers control and

[1] Government encouragement has consisted of legislation in some cases (such as the requirement in Denmark and the Netherlands for a limited set of companies to publish an environmental report at the site level, and to mention sustainability issues in annual reports, e.g. in the Scandinavian countries, Australia and France). It has also included more (indirect) encouragements, such as in the case of Germany where the government has stimulated companies to follow the European Eco-Management and Audit Scheme. Different from ISO 14001, this European Management System requires voluntarily participating companies to produce an annual environmental report, though always at the plant level only. In Japan, environmental reporting and accounting guidelines issued by the ministries for the environment and for economy, trade and industry have been important.

accountability structures. In that respect, figure 1 partly represents what some companies currently try to do by paying attention to corporate governance aspects in their sustainability reporting, thus aiming to cover all these relationships in one and the same report. Interesting questions are then how companies do this, to what extent they succeed in addressing all these topics, and what dilemmas or unresolved issues remain. These questions will be the focus of the remainder of this paper.

SAMPLE

The link between sustainability and governance was analysed through the non-financial reporting of the Fortune Global 250 – the first half of the Fortune Global 500 list as published on 26 July 2004. We followed the approach used in other studies (Kolk, 2003; Kolk et al., 2001). In the period September 2004 – January 2005, all 250 companies were scrutinised for their most recent corporate report that dealt with environmental, social responsibility and/or sustainability issues. This could be either a separate report or, if not available, the annual financial report if it contained this kind of information (also called ‘integrated report’). Websites were visited to actively search for reports, and if this did not yield results, the companies were contacted, several times if necessary, by letter, mail and/or phone, in order to have certainty about reporting by the whole set of 250 companies. The contents of the reports thus collected were carefully analysed on corporate governance issues in relation to sustainability broadly defined (see the next section for the specific items covered). To find the information, we scrutinised the whole report, also in the case of annual financial reports, where the corporate governance section is frequently separate from the sustainability part.

Overall, 161 companies reported on sustainability, in whatever form. Compared to previous studies that investigated sustainability reporting by the Fortune Global 250, this 64% is a remarkable increase, from 45% in 2001 and 35% in 1998 (Kolk, 2003; KPMG, 2002). It demonstrates rapidly growing attention to corporate accountability on non-financial issues by large multinationals. The type of reporting also exhibits changes: while the 2001 set predominantly (70%) dealt with environmental issues (and the 1998 set almost fully), this declined to only 14% in 2004. The majority of the reports (54%) dealt with environmental, social and economic aspects combined in one separate publication. Another new phenomenon is the emergence of ‘integrated reports’: annual reports with sustainability information included (20% of the companies with sustainability reporting). In 2001, the Fortune Global 250 had only one company with such a report. Table 1 gives the exact division over the types of reports.

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As to the spread of these 161 reports over the regions, considering companies’ country of origin, slightly over half (52%) is European, mostly being published by French companies, followed by German and UK companies (respective percentages of total are 14, 11 and 10). Slightly over 20% of the 161 reports originated from US multinationals; a comparable percentage applies to Japanese multinationals (respectively 22% and 21%), with the remainder coming from different emerging economies (including South Korea, China, Brazil and India).

This mirrors to some extent the overall pattern of sustainability reporting, in which European companies have been most active (90% of those in the Fortune Global 250 publishes a report), currently closely followed by Japanese companies (83%), while their US counterparts lag behind (35%) (cf. Kolk, 2005b; Kolk, 2005c, KPMG, 2005). European companies are frequently seen as trendsetters, with many 'best practices' being found in this set (S&P/SustainAbility/UNEP, 2004), reflecting cross-national differences in public debates and perceptions on sustainability reporting (e.g. Aaronson, 2002; Kolk, 2005b; Tschopp, 2005).

CORPORATE GOVERNANCE, SUSTAINABILITY AND ACCOUNTABILITY

The 161 reports were analysed in order to get insight into the extent to which companies give details about corporate governance in relation to sustainability. As mentioned above, both dimensions of this relationship have been examined (cf. Rossouw, 2005a, 2005b): the ethics of corporate governance and particularly the corporate governance of ethics/sustainability (see also S&P/SustainAbility/UNEP, 2004). Table 2 presents the percentages of companies that mention the various aspects.

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The first column gives the totals for each, while these are split up into the separate sustainability reports and the integrated reports (annual reports with sustainability information) in the second and third columns respectively. This distinction was made particularly because of the fact that the inclusion of a corporate governance section in general is more common for annual (financial) reports than for (separate) sustainability reports. Table 2 indeed shows that 81% of the annual reports contained a corporate governance section, while this was 55% for the sustainability reports. In the latter case, and as could be expected, corporate governance was, in almost all cases where the report had such a section, linked to sustainability. This was different for the integrated reports: while 81% included a section on corporate governance, 59% established the relationship with sustainability.

Interesting differences can also be seen with regard to the other aspects mentioned in the reports. The structuring and internal organisation of sustainability issues is much more often indicated in separate sustainability than in integrated annual reports. This also applies to transparency about who is finally responsible, and the existence of complaints mechanisms specifically for sustainability issues. External verification of sustainability information is more common as well for separate reports; such forms of assurance specifically for the sustainability elements of an annual report are rather recent and still exceptional. As to the existence of a code of ethics, mentioned in almost 70% of the reports, these percentages are comparable for both types of reports.

Overall, it can be said that the percentages in table 2 show that corporate governance in relation to sustainability is a rapidly emerging phenomenon (cf. S&P/SustainAbility/UNEP, 2004). Surveys of similar sets of companies a few years ago did not mention this as a topic of importance (Kolk, 2003; KPMG, 2002). It is notable that reporting companies frequently refer to corporate governance in relation to sustainability, and to their codes of ethics, but that the delineation of actual structures and responsibilities is much less common. While the percentages for the former are in the 50% to 70% range (items 5 and 6 in table 2), those for the others are found in around a third of the reports at best (items 1, 2, 3). Similar percentages apply to complaints mechanisms and verification (7, 8).

The fact that the percentages for these aspects related to implementation (1, 2, 3, 7, 8) are considerably higher for separate sustainability reports than for the integrated reports is interesting. It may indicate that these are an outflow of, or related to, 'traditional' environmental reporting, where attention to a specification of the organisation of sustainability as well as compliance mechanisms and monitoring has grown gradually. This might be explained from learning effects, growing experience with reporting, but also as a response to critical stakeholders who doubted the validity and reliability of these voluntary reports.

The following two subsections will give more details, also with some examples, to the way in which companies relate sustainability aspects to corporate governance and pay attention to compliance, complaints mechanisms as well as external verification/assurance.

Linking sustainability and corporate governance

As table 2 showed, more than half of the companies with a sustainability report includes a section on corporate governance, relating it in one way or the other to sustainability, social responsibility and/or corporate citizenship – different terms are being used to indicate the same phenomenon. CEO statements refer to the importance of corporate governance, transparency and honesty, and boards are said to pay much attention to, and feel responsibility for sustainability, frequently in relation to corporate governance, risk management and reputation issues. It must be noted, however, that many companies do not very much specify the relationship between corporate governance and sustainability, but frequently merely link it to accountability and transparency as part of a more general, 'traditional' treatment of corporate governance as usually included in annual financial reports. In some annual reports, the corporate governance section is part of the sustainability section (for example, Telecom Italia). Some of the logic of financial reporting and the measures taken recently also seems to filter through to sustainability reports in another way, which is the emergence of cautionary remarks about forward-looking statements that a few companies have included, in order to emphasise that actual results or developments can differ from what has been stated in their reports.

Although in many cases the link between corporate governance and sustainability is rather general, some companies are more concrete by referring to external advisory councils (on environment, social responsibility) and specific Board committees that companies establish for this purpose. Ford, for example, has 'environment and public policy' as one its five Board committees, Merck has one on 'public policy and social responsibility', Shell a 'social responsibility' committee, and BP an 'ethics and environment assurance' committee ("responsible for monitoring the non-financial aspects of executive management activities"; BP, 2004, p. 11). GlaxoSmithKline (2004, p. 4) explicitly mentions that its corporate responsibility committee, with four non-executive Directors, had three meetings in 2003 and "reviewed our activity in a number of areas including donations and community investment, consumer advertising, corporate responsibility management and reporting, political activity and programmes for diseases in the developing world".

In addition, GSK also has a corporate executive team, responsible to the CEO, while actual management is carried out within the business operations by experts on sustainability. Other companies also mention internal committees that take care of such issues. HP, for example, has an ethics committee (consisting of senior and executive vice presidents from various departments) that reports to the Audit Committee. However, overall the number of companies that gives details about the exact structure is limited. But there are some notable exceptions where, usually graphically, the sustainability governance structure is given – examples include Philips, Société Générale, Ito-Ykado and Pinault-Printemps-Redoute. As table 3 shows, European and Japanese companies are more specific than their US counterparts about the organisational aspects and responsibilities for sustainability.

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Comparing Europe and Japan, Japanese companies are most explicit about the way in which sustainability is structured within the organisation, while a separate sustainability department or unit occurs more frequently in Europe. Interesting differences can also be observed regarding attention to and notions of compliance; these will be examined next.

Complaints mechanisms and compliance

While many companies refer to the existence of a code of ethics in their reports, the percentage that actually mentions complaints mechanisms is considerably lower (see table 2). This includes an independent function, ombudsman, body, agency or provision (frequently a hotline, sometimes confidential PO Boxes) to deal with employee complaints in the field of sustainability. Table 3 shows that particularly Japanese companies pay attention to this. US companies follow at some distance, whereas European companies are much less explicit.

In some cases the functioning of complaints mechanisms is described explicitly: “The helpline operates 24 hours a day, seven days a week, in multiple languages and provides a timely way for employees worldwide to have their voices heard. The helpline, administered by an outside agency, guarantees complete confidentiality, timely investigation and response, and feedback to the caller” (Aventis, 2004, p. 13). Some companies also give information about the number and types of complaints filed by employees through a hotline system, and trends over the years. Exceptionally, companies also mention that other stakeholders can file complaints. “In early 2004, HP established a mechanism for all stakeholders to directly communicate with the Board via e-mail (bod@hp.com), should they have a concern they would like directors to address” (HP, 2004, p. 7).

Not in all cases is it clear that hotlines are anonymous, and/or that e-mail addresses or intranet sites can be used in a confidential manner. Particularly Japanese companies sometimes fail to mention that this has been guaranteed, so it is not explicit that employees will not suffer from repercussions if they file complaints. For example, Nissan Motor reports to have an “easy voice system” in Japan, where employees can convey opinions and requests, and explicitly mentions that in the US there is a flexible system in which employees can report anonymously or openly. Denso also pays explicit attention to the compliance system it has installed in the US (since 1999). One might suggest that US companies have traditionally been much more accustomed to this phenomenon, and seem therefore to have installed this in a more uniform way (if they have it).

At the same time, some Japanese companies also stand out because they mention to have hired an external law firm to staff a complaints desk. Mitsui states that if employees want to report anonymously they can contact the two external legal counsellors (that are part of compliance committee) through letters, phone calls, or e-mails. Toyota Motor has a compliance hotline established by an outside law firm, which employees can consult in private. Tepco mentions to have set up "an external attorney line in the Ethics Line, out of consideration for those who feel uneasy in making inquiries through this in-house channel" (Tepco, 2004, p. 15).

More in general, Japanese companies tend to frame ethics and sustainability in a compliance-oriented manner. Ethics, accounting and internal control scandals in the past few years seem to have played a role in this regard, since some companies explicitly refer to their own deficiencies in the past (e.g. Marubeni, Tepco, UFJ). It must be noted, however, that the more negative connotation of compliance (i.e. just do what is legally obliged, cf. Ford that mentions "From compliance to responsibility", 2004, p. 9) seems to be perceived quite differently in the Japanese context, in either a more neutral fashion (cf. the fact that environment is frequently included in the legal department in Japanese companies), or even a more pro-active way. Some examples of such phrasings will be given next.

Sony's group general counsel explains that what the compliance office does is "not just compliance in the narrow sense, because compliance assumes there are formal external rules to comply with. Where there are, fine, we comply. But even if there are no specific rules in particular areas the Sony Group Code of Conduct, which we adopted in May 2003, may well cover such areas and require compliance with our own rule." (Sony, 2004, p. 5). "Compliance, according to the Marubeni Group, is not merely following the letter of the law. In its broad sense, compliance means that industry, as a member of society, must respond to the expectations of all stakeholders, and fulfil its social responsibility." (Marubeni, 2004, p. 34). "For Toyota, compliance does not mean simply observing laws; it means respecting social norms and corporate ethics, complying with the expectations of all stakeholders including customers, investors, business partners, employees, and all others who come into contact with the company, and engaging in fair corporate activities" (Toyota, 2004, p. 64).

Some Japanese companies include a "corporate ethics and compliance statement" in their report (e.g. Mitsubishi Electric), or refer to a compliance manual that bears much resemblance to what some companies in Europe or the US would label as a code of ethics (conduct). Aspects of compliance with codes is frequently included in the corporate governance section, as is (business) risk management, sometimes in one and the same section. A number of US and particularly European companies gives information about their compliance functions and structures in different ways as well. Companies that are most explicit about this have sometimes been at the spotlight of (public/NGO) attention for different reasons. Annual ethics certification or audits are sometimes mentioned, generally as part of an overall compliance (training and enforcement) programme.

Examples include GSK and BP (2004, p. 32), which states that "nearly 200 business and functional leaders submitted compliance reports, which addressed aspects such as ethical risk, dismissals, contract terminations, gifts and entertainment registers, and awareness programmes". Novartis reports that the annual compliance survey (about the company's code of conduct and corporate citizenship policy) was sent to 2,600 associates in the US and 16,000 associates in the rest of the world. The company mentions that the mailing also included a specific reminder of the existence of complaints procedures related to these corporate principles, and that "as intended, this reminder has triggered an additional number of complaints" (Novartis, 2004, p. 51). Statoil mentions that ethical aspects are incorporated into assurance letters for managers (and that based on a pilot, values and principles, and risk management and reporting will get more attention in future assurance letters). Shell, finally, refers to its internal assurance, which means that "executives responsible for each Shell Business and country operation must provide annual assurance that their operations comply with our policies and standards" (Shell, 2004, p. 8). The company states that sustainability also plays a role in appraisal and reward, and in investment reviews.

External verification/assurance

Almost one third of the companies resort to external verification of their report. Of those companies that seek such assurance, only a few mention a reason. Motivations that are given include assessing quality, continuous improvement, responsibility, to hear opinions (Bayer), "enhance the credibility of our reported data and to continually improve our environmental management" (Sony, 2003, p. 71), and that it "not only increases credibility with external partners, but also serves to protect standards of quality internally" (Roche, 2004, p. 66).

Verification is, as earlier evidence showed as well (Kolk, 2005b), still most prevalent in Europe (see table 3). A quarter of the Japanese companies also asks for an external judgement. Particularly US companies stand out for the lack of verification; only 3% of US reports contains an assurance statement. Within Europe, especially multinationals from the UK and European countries with smaller numbers in the Fortune Global 250, such as the Netherlands, Switzerland, Spain and Italy, frequently publish verified reports. German companies score particularly low. What is new in this sample compared to previous research, is the emergence of verification (and sustainability reporting in general) in France. Regulation, adopted in 2002, to force publicly-quoted companies to publish environmental and social information has clearly played a role here.

Overall, almost 80% of the verified reports in the Fortune Global 250 sample originates from European companies, which means that this is where the trends and interesting examples will be drawn from. A slight majority of the verification is carried out by accounting firms (55%), with the remainder being done by certification bodies (16%) and consultants (29%). There is still a large variety in approaches to verification and in the actual statements, although the length and the amount of detail given is increasing. Many statements also refer to international or national standards; accounting standards in general, more specific sustainability assurance oriented such as AA1000AS or ISAE3000 or the Global Reporting Initiative (GRI) (cf. KPMG, 2005). Many of these specific standards are still rather recent, which means that comparability may well increase in coming years.

Some companies explicitly refer to the standards in their report in relation to verification. BP (2004), for example, includes a one page statement on the Global

Reporting Initiative (GRI, 2002), in which the company explains how it has reported against these principles. The assurance provider, Ernst & Young, has also checked whether BP is reporting is “in accordance” with GRI. To Grupo Santander, Deloitte has delivered a “Report on agreed-upon procedures for the independent verification of the indicators of the Grupo Santander”, which is an assessment of GRI indicators. The statement is followed by detailed tables in which a P (partial) or R (verification) is given, plus an explanation per item of the verification process performed. Some companies also explain their reporting procedures and indicators in considerable detail (Eni, Fujifilm, HSBC, ING, Philips, Shell, Suez, Veollia Environnement). Some of the assurance statements refer to GRI as standards used for the verification. Most often cited are the AA1000 assurance standard and accounting standards in general.

As to the form in which verification takes place, some companies have different sorts of verification. HSBC has two different statements in its report, one by the Corporate Citizenship Company, which provides an external commentary and assurance on the full report, and another one by KPMG, which has reviewed the environmental performance data and the related statements included in the report (resulting in another assurance statement). Unilever has two different reports (an environmental report and a social review), and has sought external advice for both of them. It asked for assurance on its environmental report (by URS), a statement to which the company responds in its report as well; its social review contains a statement of the Corporate Citizenship company. Vodafone’s report includes an assurance statement of Deloitte & Touche and of the London Benchmarking Group; it also refers to its internal assurance process.

Also noteworthy is that some companies with an integrated report have asked for an external opinion on this specific part in particular. Société Générale, for example, has asked an opinion on the governance structure established for the management of its sustainability activities, and on the environmental and social risks in financing operations. Norsk Hydro has a one-paragraph statement in which the company states that Deloitte has reviewed routines and procedures for this part, and that the full version of the statement is available on internet. Vinci includes an “Opinion of one of the statutory auditors on the approach to sustainable development and on the application of procedures for the collection of information contained in the social responsibility section of the 2003 annual report”.

Not all companies make it easy for the reader to actually read the assurance statement. In some cases the full statement can only be found on the company website (BT, Centrica, Norsk Hydro). East Japan Railway has scanned KPMG’s statement in the report, in a very small print, so it is basically unreadable (unless one does a true effort to go to the electronic version and expand the letter size enormously). Grupo Santander has also scanned the statement in its report, and it is very difficult to read, even in the electronic version on the company website. Telefónica has a statement in Spanish in its English-language report.

A few companies seem to move towards a more extensive form of assurance than just a statement. A clear example is BP, where Ernst & Young gives comments on different topics throughout the report (this is in addition to the three-page statement included at the end of the report, where the auditor gives its conclusions against the main principles of the AA1000 assurance standard, materiality, completeness and responsiveness). Not all of the specific observations throughout the report, which are based on site visits, are positive. In some instances, Ernst & Young notes what has not yet been done.

BT's report has a sign on every page that the information and data on that page has been verified by Lloyd's Register Quality Assurance. The company extensively discusses what Lloyd's has done and what the quality of its reporting and assurance is. The report does not include the actual statement, this can only be found on the company website. A final interesting example is Carrefour, which has both an external and an internal audit statement on the same page. The internal audit teams "have performed a verification of the sustainability indicators", while the external one, carried out by Veritas, focused on the reporting structure, internal audit procedures and the consolidation of indicators.

CONCLUSIONS AND DISCUSSION

On the basis of the analysis of recent Fortune Global 250 sustainability reporting, it can be concluded that corporate governance in this context has clearly become a topic on which companies have started to offer information, and thus strive to increase transparency and accountability. As to the specific contents of this disclosures, some qualifications must be made, since general references are still more common than the provision of much detail about the actual structures and responsibilities, and external verification of what has been reported. At the same time, however, reports of the Fortune Global 250 show many interesting examples of how this can be, and is already being done. This reflects awareness of the linkage between corporate governance and sustainability broadly defined (including environmental, social and ethical aspects), and the various aspects that are related to it, something that is likely to expand even more in the years to come. Nevertheless, it remains unclear how this can best be disclosed.

As to the form in which such accountability could be done, both the annual report and a separate sustainability report are possibilities. Although it has been suggested that integrated reports in which the annual (financial) report contains environmental and social information as well may be the road towards so-called 'sustainable stakeholder accounting' (Sherman et al., 2002), it must be noted that the actual integration deserves serious attention. Sustainability sections in annual reports in many cases continue to be separate, although included; the same applies to corporate governance sections in relation to sustainability (in whatever form of report). At the same time, when corporate governance and sustainability becomes really linked and reported together, this may offer new opportunities for integrative approaches in addition to the accounting itself as described by Sherman et al. (2002). It is also important to consider the level of detail in which information will need to be given because of the fact that such forms of reporting are voluntary to some extent, but, at the same time, not really in view of disclosure requirements on risk and control management (including social, ethical, and environmental aspects) (cf. Smith, 2004), brand and reputation issues, and the ethical dimensions of remuneration and auditing.

There are underlying dilemmas, notable in Figure 1, which so far seem not to have been really addressed by companies, although some awareness can sometimes be seen. Enel (2004, p. 9), for example, points at its range of constituencies and the balancing act of different interests, when it mentions that "the application of ethical dimensions (…) takes place at Enel through its effort to reduce the tension between its obligations to the shareholders and its obligations to all the other stakeholders abolishing their presumed order of priority, even if that were to mean taking a step backwards with respect to the requests put forward; if the stakeholders, that is, individually had to relinquish – or defer – part of their requests in behalf of a common benefit." The report contains, however, no information on how this is (to be) done.

Sustainability reporting is typically a way in which companies try to address a multitude of audiences. If this becomes integrated with corporate governance, both the company-shareholder and company-society relationships might in principle be fully covered. How this can be done, however, in such a way that all stakeholders' (including shareholders') information requests are satisfied, and also that different (sometimes conflicting) demands are dealt with is a salient issue – in this context, but also in corporate responsibility and sustainability debates in general (cf. Margolis and Walsh, 2003). Auditors, that carry out the verification of reports, might play an intermediary role in pointing at dilemmas and clarifying areas that need further attention, but this is not unproblematic as some recent cases have shown. Moreover, as a result of these scandals they seem to be driven more by the avoidance of risks and it is not obvious if this helps to increase accountability.

Thus, the environmental agency model as developed by Power (see figure 1) seems to have been broadened to include a whole range of aspects, but with the respective roles and dilemmas still largely in place; they may have even become more prominent. One might suggest that learning how to balance different interests, making choices and implementing and explaining them in a transparent manner is the very nature of sustainability (corporate responsibility) and corporate governance. Reporting on these aspects can play a role in helping shape ideas on how to do this, and stimulate learning, dissemination and implementation within companies (cf. Zambon and Del Bello, 2005).

It is interesting to see that companies from US, Japan and Europe seem to be dealing with such aspects in different ways, as shown in this paper (see also table 3). While European companies deserve specific attention regarding external verification, this applies to their Japanese counterparts as far as complaints mechanisms and structuring of sustainability are concerned. US companies illustrate how difficult it sometimes is to combine fear for litigation with a more voluntary approach that aims to disclose more than is legally required, and face the risks that may be associated with it (Smith, 2004).

This whole complex of factors offers ample opportunities for further research that delves into the various aspects that have been addressed in this paper. The exploratory insights from this paper can be used as an impetus to existing studies that looked at cross-country differences in sustainability and corporate social responsibility (reporting) (e.g. Kolk, 2005b; Maignan and Ralston, 2002; cf. Berthelot et al., 2003) and tried to link (traditional structural aspects of) corporate governance with environmental reporting (Halme and Huse, 1997). Follow-up studies can also extend to other aspects of corporate governance that have not been covered yet, and to regions (such as emerging economies in Asia, cf. Welford 2005a, 2005b) where these topics have not received very much attention yet.

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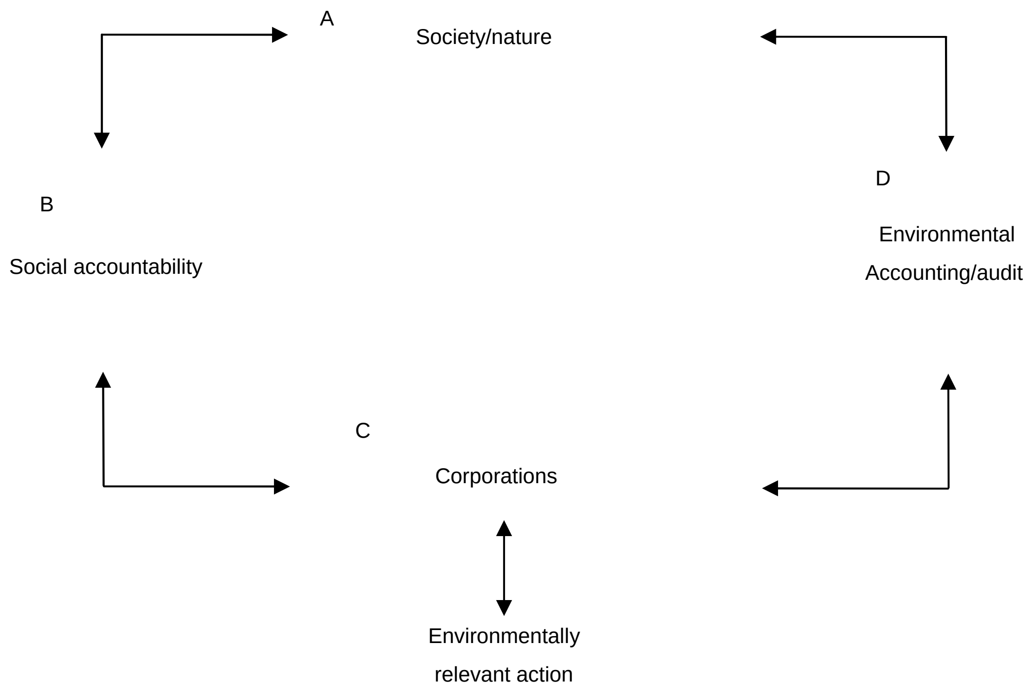
FIGURES AND TABLES

Figure 1. An environmental agency model



Source: Power (1991): 33

Table 1. Types of sustainability reports by the Fortune Global 250 (2004, n=161)

Type of report	*%*
Separate sustainability reports (economic, environmental, social)	54,4
Social & Environmental reports	10,6
Environmental/HSE reports	13,8
Social/Ethics reports	1,3
Financial reports with integrated sustainability information	20,0

Table 2. Inclusion of governance items in Fortune Global 250 sustainability reports (2004, in %) [total, and divided into separate sustainability and integrated, annual reports]

Governance/sustainability items mentioned in the reports	*Total*	*Sustainability reports*	*Integrated reports**
[1] The structuring of sustainability within the organisation	32.5	38.0	9.4
[2] The existence of a separate sustainability department/unit	28.8	31.0	18.8
[3] Indication of person/body finally responsible for sustainability	30.0	34.1	12.5
[4] Separate section on corporate governance in the report	60.6	55.0	81.3
[5] Corporate governance specially linked to sustainability issues	53.1	51.2	59.4
[6] The existence of a code of conduct/ethics	66.9	65.9	68.8
[7] Existence of complaints mechanisms linked to sustainability	28.1	30.2	18.8
[8] External verification of sustainability report**	30.0	34.1	12.5
	n=161	n=129	n=32

* This category consists of annual reports with sustainability information included; 'sustainability reports' refers to separate reports that focuses only on these topics.
** In the case of integrated reports, verification has only been counted if this applied specifically to the sustainability information.

Table 3. Inclusion of governance items in Fortune Global 250 sustainability reports, per region (2004, %)

Governance/sustainability items mentioned in the reports	*Europe*	*US*	*Japan*	*Other**
[1] The structuring of sustainability within the organisation	34.5	14.3	51.5	11.1
[2] The existence of a separate sustainability department/unit	40.5	11.4	24.2	0.0
[3] Indication of person/body finally responsible for sustainability	36.9	14.3	36.4	0.0
[4] Separate section on corporate governance in the report	70.2	45.7	63.6	22.2
[5] Corporate governance specially linked to sustainability issues	56.0	57.1	54.5	0.0
[6] The existence of a code of conduct/ethics	71.4	62.9	72.7	22.2
[7] Existence of complaints mechanisms linked to sustainability	20.2	31.4	51.5	0.0
[8] External verification of sustainability report	45.2	2.9	24.3	11.1
	n=84	n=35	n=33	n=9

* Consists of Brazil (1 company), China (2 companies), India (1), Mexico (1), Russia (1), South Korea (3).